S. HRG. 98-567

CARGO PREFERENCE

HEARINGS

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

S. 188

TO FURTHER THE DEVELOPMENT AND MAINTENANCE OF AN ADEQUATE AND WELL-BALANCED AMERICAN MERCHANT MARINE BY REQUIRING THAT CERTAIN MAIL OF THE UNITED STATES BE CARRIED ON VESSELS OF UNITED STATES REGISTRY

S. 206

TO INCREASE THE ROLE OF THE SECRETARY OF TRANSPORTATION IN ADMINISTERING SECTION 901 OF THE MERCHANT MARINE ACT, 1936

S. 1616

TO REVISE THE LAWS REGARDING THE TRANSPORTATION OF GOVERNMENT CARGOES IN UNITED STATES-FLAG VESSELS

S. 1624

TO PROMOTE INCREASED OCEAN TRANSPORTATION OF BULK COMMODITIES IN THE FOREIGN COMMERCE OF THE UNITED STATES IN UNITED STATES-FLAG SHIPS, TO STRENGTHEN THE DEFENSE INDUSTRIAL BASE, AND FOR OTHER PURPOSES

SEPTEMBER 27 AND 29, 1983

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CARGO PREFERENCE

TUESDAY, SEPTEMBER 27, 1983

U.S. Senate,
Committee on Commerce, Science, and Transportation,
Subcommittee on Merchant Marine,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:15 p.m., in room SR-253, Russell Senate Office Building, Hon. Ted Stevens (chairman of the subcommittee) presiding.

Staff members assigned to these hearings: Peter Friedmann and David Dye, staff counsels; and John D. Hardy, minority staff counsel.

OPENING STATEMENT BY SENATOR STEVENS

Senator Stevens. Good afternoon.

Today the Senate Merchant Marine Subcommittee begins consideration of four bills relating to reservation of various cargoes for U.S.-flag vessels. These bills attempt to address the very fundamental problem of declining cargo availability for our U.S.-flag fleet, particularly in the liquid and dry bulk fleet.

As we all know, the U.S. merchant marine is a vital component of our international trade apparatus, and it is critical to our national defense. It is a matter of some concern to me that our merchant marine has been in a state of decline for some years now. The U.S.-flag bulk fleet in the foreign trades has declined to a point of near extinction. To allow this to happen would be very detrimental to our Nation in the long run.

Even though most of us recognize this problem, there is less than perfect agreement on a comprehensive strategy for revitalizing this very critical industry. Many of the ideas put forward are not new. Some of these, including cargo preferences, have been used in the past, and are being used today in one form or another. We need to find the right mix of governmental promotion programs which will give our ocean carrier and shipyard industries a chance for survival in the world market.

The economic costs of these programs should be distributed as equitably as possible to avoid harming other sectors of the economy. We have three bills before us today, first by Senator Inouye, and the second by Senator Inouye. The third one was, as I say, three. We have a series of bills. Another by Senator Inouye and myself. Another by Senator Trible and myself. And we have in addition an amendment that I have filed, No. 1516, to S. 1624, which pertains to reserved bulk cargo to be carried by foreign-built, U.S.-documented, and U.S.-manned ships.

I want to begin the testimony this afternoon with my good friend, Senator Boschwitz. I do want to call on Senator Trible to see if you have a statement that you wish to make at this time.

OPENING STATEMENT BY SENATOR TRIBLE

Senator Tʀɪʙʟᴇ. Thank you, Mr. Chairman.

I applaud you for holding these hearings today, and I would like to say a few words by way of introduction.

The Merchant Marine Act of 1936 clearly states the purposes of the maritime program of the United States: First, to provide an adequate number of merchant vessels that will be available in case of national need; second, to provide a balanced merchant marine, balanced in terms of types of ships available and their capabilities for national defense use; and third, to provide a healthy and capable industrial base for shipbuilding, ship repair, and ship manning.

We have fallen far, far short of these objectives. Numbers have declined. Capability has become more and more specialized. Our shipyard base is deteriorating. I am pleased that this committee is beginning a systematic exploration of the issue of the future of America's merchant marine. I applaud the willingness of this committee to take a hard look at difficult issues. I want to thank you, Mr. Chairman, and Senators Inouye and Long in their absence for their long-held interest and leadership in this area.

In the last 3 years, Mr. Chairman, the Congress has made a significant effort to rebuild our Nation's defenses, yet without the ships to transport men and materiel, these efforts will be to no avail. Our merchant marine and our shipbuilding base is essential to a strong and vibrant America. Without sufficient merchant vessels in our fleet, and the ability to construct and repair large numbers of vessels rapidly, we place our national defense, indeed, our economic well-being, in jeopardy.

Today the picture is very bleak. Our current ability to meet surge and sustain requirements for sealift is questionable. Along with the decline of our fleet, we have witnessed the decline of our shipbuilding base. Recent studies suggest that shipyard base is barely adequate to meet our national requirements. So we see a very ironic situation developing. Here we have the world's largest trader of oceanborn cargo facing the prospect of relying entirely on foreign vessels for the transportation of the goods on which we must depend for our economic vigor and our military might.

S. 1624 represents, I believe, an innovative approach to address this problem. It does adopt the cargo equity scheme of past bills, but it requires a set-aside as a precondition. It provides for a tax credit to offset the differential that might exist between carrying cargo on American vessels and foreign vessels. It is not a perfect measure by any means, but it is a point of departure, and it is a vehicle for discussion, and I welcome the witnesses that are here today.

Some of the testimony will support this initiative; some will not, but I am sure that it will all be quite constructive, and hopefully together we can craft a strategy that is in America's best interest.

There is one thing that we should not lose sight of today as we talk about oceangoing cargoes. When we are talking about America's merchant marine and America's shipbuilding base, we are talking about jobs. Senate bill 1624 would result in tens of thousands of jobs in America's shipyards and support industries, as well as thousands of additional jobs on board American ships.

One final point, Mr. Chairman. I would point out that other nations recognize the importance of their merchant marine, and have provided powerful incentives to bolster their maritime shipbuilding industries. America can do no less. Thank you.

Senator STEVENS. Senator Gorton, do you have an opening statement?

Senator GORTON. No, Mr. Chairman.

Senator STEVENS. Senator Pressler, would you like to make a statement at this time?

OPENING STATEMENT BY SENATOR PRESSLER

Senator PRESSLER. I do have a statement on this subject.

One might not think that I or my South Dakota constituents would have much interest in cargo preference legislation. However, many South Dakotans do have a great interest in this issue. South Dakota is the most agriculture-dependent State in the Nation, which makes us very interested in cargo preference requirements and their impact on agricultural exports. Expanding the cargo preference requirements on agricultural products would have a devastating impact on agricultural exports and export promotion efforts.

Cargo preference provisions are currently in effect for agricultural sales under the Public Law 480 program. This requirement is quite expensive. The Department of Agriculture spent $97,675,000 in 1982 to meet cargo preference requirements. In effect, it cost USDA an extra $1.42 per bushel of grain to transport Public Law 480 grain on U.S. ships.

There is much concern that the cargo preference requirement could be extended to other agricultural sales under various credit programs. The imposition of such a requirement would have a negative impact on credit or promotion programs that the United States might implement. Increased shipping costs of $1.42 cents per bushel would more than offset interest subsidies that might be offered to prospective buyers of U.S. grain. If agricultural export promotion programs are subject to cargo preference provisions, then USDA or other administrating agencies must also pay the increased shiping costs.

In effect, we are increasing the the cost of farm programs for the benefit of the shipping industry. If we must subsidize the shipping industry, then let us make a direct payment to them so that everyone knows it is the maritime industry which is being subsidized. We should not add to the misperception, that this subsidy is part of the cost of our farm program.

The maritime industry already benefits from several Government subsidy programs and tax breaks. The Merchant Marine Act, as amended, authorized five different programs to benefit U.S.-flag ships. These programs cost the Federal Government, through lost tax revenue and actual expenditures, $8.85 billion in 1981. With these expensive programs in place, I have to question whether an additional cargo preference provision is needed.

The prices charged by U.S.-flag ships average between 100 and 350 percent more than rates of foreign-owned vessels. Much of this increased cost is the result of higher salaries in the U.S. merchant marine. The average U.S. seaman's annual salary in 1982 was $45,000. Most farmers would like to have a similar salary.

In conclusion, I suggest that if we intend to subsidize the maritime industry or any other industry, the payment should be made directly to that industrial sector and through the appropriate agency or program. We should not hide subsidies to the shipping industry in the budgets or programs of the Department of Agriculture.

I must take some constituents down to the FCC on some South Dakota matters at 3 o'clock, so I cannot stay, but I will try to return and expand on this statement. I think it is a very important and timely subject. I commend our witnesses.

Senator STEVENS. Senator Inouye, do you have a statement?

OPENING STATEMENT BY SENATOR INOUYE

Senator INOUYE. Thank you, Mr. Chairman.

In varying degrees each of these bills seeks to revitalize our seriously ailing merchant marine—especially the bulker segment and the shipyards—by strengthened or expanded cargo reservation schemes and, in the case of S. 1624, tax incentives.

Traditionally, the United States has promoted its merchant marine through direct subsidies—CDS and ODS—and indirect subsidies; Government-impelled cargo reservation schemes; limited tax incentives; and the Jones Act.

The national interest in promoting a strong merchant marine are national defense and the development of our foreign and domestic commerce. Specifically, that the United States have a merchant marine which, inter alia, is sufficient to carry its domestic waterborne commerce and substantial portion of the waterborne export and import foreign commerce of the United States; capable of serving as a naval and military auxiliary in time of war or national emergency; and, supplemented by efficient facilities for shipbuilding and ship repair.

As illustrated by the following statistics these national policy objectives, which are set out in the Merchant Marine Act of 1936, are not being achieved:

Currently, foreign-flag vessels transport 96 percent of U.S. international waterborne trade.

In 1950 the U.S. merchant marine ranked first in the world, by deadweight tonnage; in 1980 the United States ranked eighth.

In number of vessels, the United States ranked 11th in 1980, 578 privately owned; the Soviet Union ranked 2d, 2,530.

Our dry bulk fleet is virtually nonexistent, 23 vessels, of which 14 are over 20 years old.

The U.S. merchant marine is the most critical factor for our military sealift capability. Many military experts question its present adequacy for this purpose.

No new commercial shipbuilding orders of any consequence are being placed in U.S. yards. As a result, our active shipbuilding industrial base of 27 shipyards is eroding to point where national security, jobs, and a key U.S. industry are seriously threatened; and industry experts say that the administration's proposal to maintain our shipbuilding base through expanded naval construction is insufficient.

I am a sponsor of two of the bills under consideration—S. 188, S. 206, cosponsor of a third—S. 1616, and a cosponsor of the predecessor of S. 1624—S. 1000. My purpose in each case was to focus attention on the serious condition of our maritime industry, impress on everyone the urgency of remedying the situation, and to generate a constructive dialog on how to do it.

[The bills follow:]

II

98TH CONGRESS
1ST SESSION

S. 188

To further the development and maintenance of an adequate and well-balanced American merchant marine by requiring that certain mail of the United States be carried on vessels of United States registry.

IN THE SENATE OF THE UNITED STATES

JANUARY 26 (legislative day, JANUARY 25), 1983

Mr. INOUYE introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

---

A BILL

To further the development and maintenance of an adequate and well-balanced American merchant marine by requiring that certain mail of the United States be carried on vessels of United States registry.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That title IV of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1101 et seq.), is amended by adding at the end thereof a new section 405 to read as follows:

"SEC. 405. (a) The Postal Service shall contract for the use of vessels of United States registry to originate any international sea transportation of mail of the United States in any case in which the common carrier which operates or controls such vessel is engaged in the provision of regular transportation services to the destination specified by the Postal Service. The Postal Service shall not be required to enter into any such contract if no such vessels are available at the time the Postal Service seeks to arrange for the transportation of such mail.

"(b) Any rate charged for the sea transportation of mail of the United States under subsection (a) of this section shall comply with the provisions of the Shipping Act, 1916 (46 U.S.C. 801–842). Any such rate shall not be less than the sum of—

"(1) the fully distributed costs of common carriers for the carriage of such mail; and

"(2) a fair and reasonable profit.

"(c) In any case in which two or more common carriers seek to enter into a contract offered by the Postal Service under subsection (a) of this section, the Postal Service shall award such contract by competitive bidding. The duration of any such contract may not exceed one year.

"(d) The Postal Service shall not give any preference to any common carrier for the carriage of mail by sea based upon the basis of length, height, or width of cargo containers. No advertisement or invitation to bid for the carriage of such mail may specify carriage of mail in containers of any specified length, height, or width.

"(e) For purposes of this section, the term 'common carrier' means any common carrier, other than any ferryboat running on regular routes, engaged in the transportation by water of passengers or property between the United States (or any of its districts, territories, or possessions) and any foreign country, whether in the import or export trade, except that a cargo boat commonly referred to as an ocean tramp shall not be considered to be a common carrier.".

SEC. 2. Section 410(b) of title 39 of the United States Code is amended by adding at the end thereof the following new paragraph:

"(9) Section 405 of the Merchant Marine Act, 1936, as amended.".

II

98TH CONGRESS
1ST SESSION

S. 206

To increase the role of the Secretary of Transportation in administering section 901 of the Merchant Marine Act, 1936.

IN THE SENATE OF THE UNITED STATES

JANUARY 26 (legislative day, JANUARY 25), 1983

Mr. INOUYE introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

---

A BILL

To increase the role of the Secretary of Transportation in administering section 901 of the Merchant Marine Act, 1936.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 901(b)(2) of the Merchant Marine Act, 1936 (46 U.S.C. 1241(b)), is amended to read as follows:

"(2) The Secretary of Transportation shall have the sole responsibility for determining and designating those programs which are subject to the requirements of this subsection. Every department or agency having responsibility for the programs so designated by the Secretary of Transportation shall administer such programs with respect to this subsection under regulations issued by the Secretary of Transportation. The Secretary of Transportation shall review such administration and shall annually report to the Congress with respect thereto.".

II

98TH CONGRESS
1ST SESSION

S. 1616

To revise the laws regarding the transportation of Government cargoes in United States-flag vessels.

IN THE SENATE OF THE UNITED STATES

JULY 13 (legislative day, JULY 11), 1983

Mr. STEVENS (for himself and Mr. INOUYE) introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

---

A BILL

To revise the laws regarding the transportation of Government cargoes in United States-flag vessels.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Government Impelled Cargo Act of 1983".

CARGO AFFECTING THE NATIONAL SECURITY

SEC. 2. All waterborne cargo affecting the national security of the United States shall be transported in United States-flag vessels.

DIRECT GOVERNMENT INVOLVEMENT IN CARGO NOT AFFECTING THE NATIONAL SECURITY

SEC. 3. At least 50 per centum of the gross tonnage of all waterborne cargo not affecting the national security of the United States shall be transported in United States-flag vessels when any one of the following categories applies:

(1) The United States procures, contracts for, or otherwise obtains the cargo for its own account.

(2) The United States furnished the cargo to or for the account of any foreign nation free of any charge for the cargo.

(3) The United States sells the cargo to or for the account of any foreign nation at a price that is less than the cost to the United States of procuring, handling, and storing the cargo.

INDIRECT GOVERNMENT INVOLVEMENT IN CARGO NOT AFFECTING THE NATIONAL SECURITY

SEC. 4. (a) All waterborne cargo not affecting the national security of the United States and shipped to or from the United States shall be transported in United States-flag vessels whenever the United States provides to any entity, foreign or domestic, any form of grant, loan, credit, advance of funds, cash transfer, or guaranty, and the grant, loan, credit, advance of funds, cash transfer, or guaranty is used—

(1) to pay at least 50 per centum of the cost of procuring, contracting for, or otherwise, obtaining the cargo; or

(2) to pay any of the foreign charges for the cargo.

(b) The Secretary may waive an amount not to exceed 50 percent of the gross tonnage of cargo described in subsection (a) of this section in order to permit such cargo to be carried in vessels of the recipient nation, if United States-flag vessels have equal access to cargo originating in that nation.

(c) Any grant, loan, credit, advance of funds, cash transfer, or guaranty provided in accordance with this section shall be conditioned on the responsible agency obtaining agreement by the recipient entity to comply with the requirements of this Act.

EXCEPTIONS

SEC. 5. Sections 2, 3, and 4 of this Act shall not apply to a particular shipment of cargo if—

(1) after proper notice in accordance with sections 6 of this Act, no United States-flag vessel is available at competitive rates; or

(2) the Congress, by concurrent resolution, or the President declares that an emergency exists justifying a temporary waiver of one or more of those sections.

COMPLIANCE

SEC. 6. (a) The agency responsible for—

(1) procuring, contracting for, or otherwise obtaining, or furnishing or selling cargo subject to sections 2 or 3 of this Act; or

(2) providing, arranging, or administering any form of grant, loan, credit, advance of funds, cash transfer, or guaranty in accordance with section 4 of this Act;

shall publish a notice of need for United States-flag vessels required pursuant to this Act at least thirty days before the vessels will be needed. The Secretary shall establish by rule the content, place, and manner of publications of notices of need.

(b) If the responsible agency fails to publish a notice of need in accordance with subsection (a) of this section, it shall nevertheless contact the appropriate United States-flag carriers to determine whether any United States-flag vessels are available at competitive rates.

(c) If the responsible agency, after complying with subsection (a) or, if necessary, subsection (b) of this section, determines that no United States-flag vessels are available at competitive rates, the agency shall certify that determination to the Secretary, who shall verify the certification within two working days of receipt.

(d) If the responsible agency, after complying with subsection (a) or, if necessary, subsection (b) of this section, determines that no United States-flag vessels are available at competitive rates and so certifies to the Secretary, and that certification is verified, then the agency may use one or more foreign-flag vessels to transport the portion of the cargo that otherwise would have been transported on United States-flag vessels.

(e) Each agency shall report its compliance with or variance from the requirements of this Act, for each fiscal year, to the Secretary and to the Congress within thirty days after the end of the fiscal year. The Secretary shall establish by rule the form and content of such annual compliance reports.

(f) The Secretary shall monitor compliance with this Act and shall review the annual compliance reports required by subsection (e) of this section. The Secretary shall immediately report any finding of noncompliance with this Act to the noncompliant agency. Each agency that failed to comply with this Act in any fiscal year shall be required to make up the entire differnce in United States-flag vessel carriage resulting from noncompliance by using all available United States-flag vessels, until the Secretary shall certify that compliance has been achieved.

DEFINITIONS AND CONSTRUCTION

SEC. 7. (a) For purposes of this Act, the term—

(1) "cargo affecting the national security of the United States" means—

(A) all equipment and supplies bought for the Army, Navy, Air Force, Marine Corps, or Coast Guard;

(B) all oil and other petroleum procured, contracted for, or otherwise obtained for the strategic petroleum reserve;

(C) all materials procured, contracted for, or otherwise obtained for the national defense stockpile;

(D) all motor vehicles and household goods owned by United States Government personnel whenever transportation of such vehicles or household goods at Government expense is authorized by law; and

(E) any other equipment, materials, or commodities procured, contracted for, or otherwise obtained by the United States, of any description, certified by the President or his designee as affecting the national security of the United States;

(2) "Secretary" means the Secretary of Transportation; and

(3) "United States-flag vessel" means a vessel as defined in section 3 of title 1, United States Code, that

is owned by a citizen of the United States within the meaning of section 2 of the Shipping Act, 1916 (46 U.S.C. 802), and that—

(A) if built in the United States has been issued a certificate of documentation under section 107 of the Vessel Documentation Act (46 U.S.C. 65e); or

(B) if not built in the United States, has been issued a certificate of documentation under section 107 of the Vessel Documentation Act (46 U.S.C. 65e) and has held such certificate for not less than three years.

(b) For purposes of this Act, a United States-flag vessel shall be treated as being available at competitive rates only if—

(1) the vessel is—

(A) of the size and type appropriate for the cargo to be transported; and

(B) capable of meeting the pickup and delivery schedule stated by the agency incident to compliance with section 6(a) of this Act; and

(2) the rates for the vessel—

(A) in the case of liner-type cargo, do not exceed the rates established by conferences operating on the same or similar routes transporting the same or similar cargo;

(B) in the case of liquid or dry bulk cargo transported by a vessel other than a vessel described in subparagraph (C), do not exceed an amount equal to 150 per centum of the world rate for transporting the same or similar cargo; or

(C) in the case of liquid or dry bulk cargo transported by a vessel that either (i) was constructed in the United States in the last fifteen years, or (ii) was substantially rebuilt in the United States in the last five years, are fair and reasonable for United States-flag commercial vehicles of that size or type transporting the same or similar cargo.

REPEALS

SEC. 8. The following provisions of law are repealed:

(1) Section 2631 of title 10, United States Code, and the item relating to that section in the analysis for chapter 157 of that title.

(2) Section 901(b) of the Merchant Marine Act, 1936 (46 U.S.C. 1241(b)).

(3) The joint resolution entitled "A Joint Resolution requiring agricultural or other products to be shipped in vessels of the United States where the Re-

construction Finance Corporation or any other instrumentality of the Government finances the exporting of such products", adopted March 26, 1934 (Pub. Res. 17, 46 U.S.C. 1241-1).

EFFECTIVE DATE

SEC. 9. The effective date of this Act shall be the first day of the fiscal year following its enactment.

II

98TH CONGRESS
1ST SESSION

S. 1624

To promote increased ocean transportation of bulk commodities in the foreign commerce of the United States in United States-flag ships, to strengthen the defense industrial base, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JULY 14 (legislative day, JULY 11), 1983

Mr. TRIBLE (for himself and Mr. STEVENS) introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

---

A BILL

To promote increased ocean transportation of bulk commodities in the foreign commerce of the United States in United States-flag ships, to strengthen the defense industrial base, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Merchant Marine Revitalization Act of 1983".

TITLE I

SEC. 101. SHORT TITLE.

This title may be cited as the "Competitive Shipping and Shipbuilding Act of 1983".

SEC. 102. FINDINGS, PURPOSES, AND POLICY.

(a) The Congress finds and declares the following:

(1) The United States is totally dependent upon foreign-flag bulk shipping services in that United States-flag vessels now carry less than 4 per centum of its bulk import and export cargoes in international trade.

(2) Virtually all bulk imports of the United States are critical to American industrial production or to the maintenance of adequate energy supplies.

(3) Bulk exports of the United States contribute substantially to the United States balance of trade, provide major sources of employment in the United States, and contribute to the food supply and other essential requirements on a worldwide basis.

(4) The United States cannot afford to rely heavily upon foreign sources to provide the transportation services needed to maintain the flow of essential bulk imports and exports if it is to ensure its economic and political independence.

(5) The United States is continuing to lose the major portion of revenues generated by the carriage of its bulk imports and exports in international trade.

(b) It is therefore declared to be the purpose and policy of the Congress in this title—

(1) to take immediate and positive steps to promote the orderly and rapid growth of the bulk cargo carrying capability of the United States merchant marine in order to transport at least 20 per centum of our bulk imports and exports in United States-flag ships within fifteen years;

(2) to assist and cooperate with the importers and exporters of bulk commodities so that they will be able to ship their goods in United States-flag ships in a commercially practicable manner; and

(3) to encourage the construction in United States shipyards of new, efficient, and environmentally safe bulk cargo carrying merchant vessels.

SEC. 103. DEFINITIONS.

As used in this title—

(a) The term "United States-flag ship" means a bulk cargo carrying vessel that meets each of the following conditions:

(A) The vessel was built in the United States;

(B) The vessel is documented under the Vessel Documentation Act (94 Stat. 3453);

(C) Each member of the crew of the vessel is a United States citizen; and

(D) Not more than 50 per centum of the main propulsion machinery, other machinery, articles and components of the vessel, which are not an integral part of the hull or superstructure, are of foreign manufacture. This percentage shall be computed on the basis of cost, determined separately for each item of machinery or equipment.

(b) The term "bulk cargo" means cargo transported in bulk without mark or count by a vessel engaged in the foreign commerce of the United States.

(c) The term "Secretary" means the Secretary of Transportation.

SEC. 104. CARRIAGE OF BULK CARGOES ON UNITED STATES-FLAG SHIPS

(a) In the calendar year following the year of enactment of this title, each importer or exporter of bulk cargoes shall transport at least 5 per centum of these bulk cargoes in United States-flag ships. In each calendar year thereafter the percentage of bulk cargoes required to be transported in United States-flag ships shall increase by 1 per centum until the percentage of the bulk cargoes required to be transported in United States-flag ships during each calendar year is at least 20 per centum.

(b) The requirements imposed in subsection (a) of this section are obligations of the importer and exporter of bulk cargoes, and may not be avoided by the terms of sale of those bulk cargoes.

(c) Each importer and exporter subject to the requirements of this title shall, upon acceptable documentation, be granted credit on a ton-for-ton basis, for the employment of United States-flag ships in the transportation of bulk cargoes between foreign ports, against the volume of bulk cargoes which otherwise would be required to be transported in United States-flag ships pursuant to this title.

(d) Beginning in the first calendar year after enactment, the Secretary may relieve any importer, exporter, shipper, or receiver, from the requirements of this title, upon application, to the extent he determines necessary, upon a finding that United States-flag ships are not available or are not available within guideline rates pursuant to section 105. In determining the extent of relief to be granted in terms of aggregate tonnage of bulk cargoes, numbers of vessels, and duration of relief, the Secretary shall take into account the timeliness of the application for waiver, the vessels on order, under construction, coming off-hire and such other factors as he deems appropriate. In no event shall relief be granted for a period beyond the calendar year in which application is made. No relief may be granted under this subsection if the Secretary determines that cargo is being diverted to avoid compliance with this title.

(e) For the purposes of this title, any percentage of bulk cargo shall be measured by the aggregate tonnage of all bulk cargoes shipped on account of an importer or exporter in the foreign commerce of the United States.

SEC. 105. ESTABLISHMENT OF GUIDELINE RATES.

(a) The Secretary shall establish and publish guideline rates for the carriage of bulk cargoes subject to this title. In establishing the guideline rates, the Secretary must assure that the rate takes into account the following objectives:

(1) the development and maintenance of a modern, efficient United States-flag bulk cargo fleet;

(2) the availability of a United States-flag bulk cargo fleet to meet United States strategic requirements in time of international crisis;

(3) the maintenance of international markets for United States bulk exports and the development of new market opportunities; and

(4) the continued access by American industry to essential bulk imports.

(b)(1) In order to establish the guideline rates, the Secretary shall estimate the current cost, including reasonable profit, of operating various classes of United States-flag ships in the foreign bulk trades of the United States and the current cost, including reasonable profit, of constructing various classes of United States-flag ships in United States shipyards.

(2) These current cost estimates shall be promulgated within six months after enactment of this title. Thereafter these estimated costs shall be revised annually to reflect the annual gross national product deflator, as determined by the Bureau of Labor Statistics, and any other factors the Secretary deems appropriate.

(3) In the second year following the commencement of the required percentage of United States-flag ship transportation, as set forth in section 104, United States-flag ship operating costs and United States shipyard construction costs, such construction costs based upon a ten-ship series in a United States shipyard, must each reflect cost reductions of at least 20 per centum below the Secretary's initial estimated costs, as set forth in subsection (b)(1).

(4) In the second year and in each succeeding year following commencement of required United States-flag ship transportation, as set forth in section 104, the Secretary shall employ these cost estimates, as adjusted pursuant to subsection (b)(2), as the primary basis for establishing guideline rates as required by this section.

(c)(1) Guideline rates shall be separately established for voyage, time, and bareboat charter, by class of vessel, by commodity and trade, as necessary, and shall be based upon recognized international charter market indices, adjusted to reflect the Secretary's estimated costs, pursuant to subsection (b). In the absence of such recognized indices the Secretary shall utilize the best available information. The Secretary shall promulgate by regulation the indices or other information he will rely upon and the methodology and criteria he shall employ in adjusting such indices to achieve the purposes of this title.

(2) These guideline rates shall be reviewed and adjusted periodically, as circumstances require, but not less frequently than annually.

(3) These rates, as established by the Secretary, may not reflect costs greater than the adjusted costs as set forth in subsection (b).

(4) Guidelines rates shall be the maximum rates which may be charged for the charter of United States-flag ships for the transportation of those bulk cargoes that are required to be transported under this title.

(d) In the first calendar year following enactment of this title, the Secretary, in consultation with the advisory committee established in subsection (e), shall establish and publish interim guideline rates. These interim rates shall be based upon a fair and reasonable rate for the transportation of bulk cargoes on existing United States-flag bulk cargo carrying vessels; the specific charters, voyages, bulk commodities, and trades concerned; the objectives of this title; and any other factors the Secretary deems appropriate. These interim rates shall be the maximum rates which may be charged for the charter of United States-flag ships until guideline rates have been established and published pursuant to subsections (b) and (c).

(e) The Secretary shall appoint and consult on a regular basis with an advisory committee, composed of importers, exporters, charter brokers, United States-flag ship operators, shipbuilders, labor unions, and management and labor organizations, to advise and assist him in the establishment and review of United States-flag ship operating cost and United States shipyard construction costs, guideline rates, and regulations. The advisory committee may be divided into panels as the Secretary deems appropriate. Members shall be appointed for terms of three years and may be reappointed to succeeding terms. Members shall serve without compensation.

SEC. 106. REPORTING OF AMOUNT SHIPPED ON UNITED STATES-FLAG SHIPS.

(a) Each person, corporation, partnership, or other business entity that imports or exports bulk cargoes in the foreign commerce of the United States, and whose volume of business exceeds $1,000,000 annually (in imports or exports or any combination thereof) shall submit to the Secretary, on or before January 31 of each year, a sworn statement certifying that the percentages of its imports and exports carried on

United States-flag ships in the preceding year were at least the percentage required to be transported in United States-flag ships under section 104 of this title. The Secretary shall prescribe by regulation the documentation required to be submitted with the sworn statement in order to verify its accuracy.

(b) Each importer, exporter, shipper, or receiver, who fails to use United States-flag ships to transport the required percentage of imports or exports required by this title, and who has not applied for and received timely relief pursuant to section 104(d), shall use exclusively United States-flag ships for the transportation of bulk cargoes until the percentage deficiency has been recouped. Any such failure shall not constitute grounds for Secretarial relief from the requirements of this title.

SEC. 107. CIVIL PENALTY PROVISION.

(a) It is unlawful for any importer or exporter to violate any provision of this title or any regulation issued pursuant to this title. Any person who is found by the Secretary, after notice and an opportunity for a hearing in accordance with section 554 of title 5, United States Code (5 U.S.C. 554), to have violated this title, or any regulation issued under it, shall be liable to the United States for a civil penalty. The amount of the civil penalty shall not exceed $100,000 for each violation. Each day of a continuing violation shall constitute a separate offense. The amount of the civil penalty shall be assessed by the Secretary by written notice. In determining the amount of such penalty, the Secretary shall take into account the nature, circumstances, extent, and gravity of the act committed and, with respect to the violator, the degree of culpability, any history of prior offenses, and such other matters as justice may require.

(b) Any person against whom a civil penalty is assessed under subsection (a) may obtain review thereof in the appropriate district court of the United States by filing notice of appeal in the court within thirty days from the date of the order and by simultaneously sending a copy of the notice by certified mail to the Secretary. The Secretary shall promptly file in the court a certified copy of the record upon which the violation was founded or the penalty imposed, as provided in section 2112 of title 28, United States Code (28 U.S.C. 2112). The findings and order of the Secretary shall be set aside by the court if they are not found to be supported by substantial evidence, as provided in section 706(2) of title 5, United States Code (5 U.S.C. 706(2)).

(c) If any person fails to pay an assessment of a civil penalty after it has become a final and unappealable order, or after the appropriate court has entered final judgment in favor of the Secretary, the Secretary shall refer the matter to the Attorney General of the United States, who shall recover the amount assessed in any appropriate district court of the United States. In such action, the validity and appropriateness of the final order imposing the civil penalty shall not be subject to review.

SEC. 108. REGULATIONS.

The Secretary of Transportation may issue such regulations as are necessary to carry out this title.

TITLE II

SEC. 201. SHORT TITLE.

This title may be cited as the "United States-Flag Ship Use Incentive Tax Act".

SEC. 202. CREDIT FOR INCREASED SHIPPING COSTS WHERE IMPORTERS AND EXPORTERS USE UNITED STATES-FLAG SHIPS.

(a) ALLOWANCE OF CREDIT.—Subpart A of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1954 (relating to credits allowable against tax) is amended by inserting before section 45 the following new section:

"SEC. 44I. CREDIT FOR QUALIFIED INCREASED SHIPPING COSTS.

"(a) IN GENERAL.—There shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 10 percent of the qualified increased shipping costs of taxpayer for the taxable year.

"(b) LIMITATIONS BASED ON AMOUNT OF TAX.—

"(1) IN GENERAL.—The credit allowed by subsection (a) for a taxable year shall not exceed the tax imposed by this chapter for such taxable year, reduced by the sum of the credits allowable under any section of this subpart having a lower number or letter designation than this section, other than the credits allowable by sections 31, 39, and 43. For purposes of the preceding sentence, the term 'tax imposed by this chapter' shall not include any tax treated as not imposed by this chapter under the last sentence of section 53(a).

"(2) CARRYOVER OF UNUSED CREDIT.—

"(A) ALLOWANCE OF CREDIT.—If the amount of the credit determined under subsection (a) for any taxable year exceeds the limitation provided under paragraph (1) for such taxable year (hereinafter in this paragraph referred to as the 'unused credit year'), such excess shall be a qualified increased shipping costs credit carryover to each of the 3 taxable years following the unused credit year, and shall be added to the amount allowable as a credit by subsection (a) for such years. The entire amount of the unused credit for an unused credit year shall be carried to the earliest of the 3 taxable years to which (by reason of this paragraph) such credit may be carried, and then to each of the other taxable years to the extent that, because the limitation contained in subparagraph (B), such unused credit may not be added for a prior taxable year to which such unused credit may be carried.

"(B) Limitation.—The amount of the unused credit which may be added under subparagraph (A) for any succeeding taxable year shall not exceed the amount by which the limitation provided under paragraph (1) for such taxable year exceeds the sum of—

"(i) the credit allowable under subsection (a) for such taxable year, and

"(ii) the amounts which, by reason of this paragraph, are added to the amount allowable for such taxable year and which are attributable to taxable years preceding the unused credit year.

"(c) Definitions.—

"(1) Qualified increased shipping costs.—The term 'qualified increased shipping costs' means with respect to each classification of bulk cargo the excess, if any, of—

"(A) the amount of gross shipping costs attributable to transporting such bulk cargo on

United States-flag ships during the taxable year, over

"(B) an amount which is the product of such costs multiplied by the average rate differential for the calendar year in which such taxable year begins.

"(2) AVERAGE RATE DIFFERENTIAL.—

"(A) IN GENERAL.—The term 'average rate differential' means with respect to each classification of bulk cargo the percentage determined by the Secretary (after consultation with the Secretary of Transportation) by dividing—

"(i) the average cost attributable to transporting such cargo on foreign-flag ships, by

"(ii) the average costs attributable to transporting such cargo on United States-flag ships.

"(B) DATE OF DETERMINATION.—the average rate differential for each classification of bulk cargo determined by the Secretary under subparagraph (A) shall be published in the Federal Register not later than March 31 of each calendar year for the previous calendar year.

"(3) BULK CARGO.—

"(A) IN GENERAL.—The term 'bulk cargo' means cargo transported in bulk without mark or count by a vessel engaged in the foreign commerce of the United States.

"(B) CLASSIFICATIONS OF CARGO.—The Secretary (after consultation with the Secretary of Transportation) shall classify bulk cargos by commodity, by class of vessel, and by any other factor deemed appropriate.

"(4) UNITED STATES-FLAG SHIP.—The term 'United States-flag ship' has the same meaning given that term by section 103(a) of the Competitive Shipping and Shipbuilding Act of 1983.

"(d) SPECIAL RULES.—For purposes of this section—

"(1) AGGREGATION OF CONTRIBUTIONS.—

"(A) CONTROLLED GROUP OF CORPORATIONS.—In determining the amount of the credit under this section—

"(i) all members of the same controlled group of corporations shall be treated as a single taxpayer, and

"(ii) the credit (if any) allowable by this section to each such member shall be its proportionate share of the qualified increase shipping costs giving rise to the credit.

"(B) COMMON CONTROL.—Under regulations prescribed by the Secretary, in determining the amount of credit under this section—

"(i) all trades or businesses (whether or not incorporated) which are under common control shall be treated as a single taxpayer, and

"(ii) the credit (if any) allowable by this section to each such trade or business shall be its proportionate share of the qualified increased shipping costs giving rise to the credit.

The regulations prescribed under this subparagraph shall be based on principles similar to the principles which apply in the case of subparagraph (A).

"(2) ALLOCATIONS.—

"(A) PASSTHROUGH IN THE CASE OF SUBCHAPTER S CORPORATIONS, ETC.—Under regulations prescribed by the Secretary, rules similar to the rules of subsections (d) and (e) of section 52 shall apply.

"(B) ALLOCATION IN THE CASE OF PARTNERSHIPS.—In the case of partnerships, the credit shall be allocated among partners under regulations prescribed by the Secretary.".

(b) TECHNICAL AMENDMENTS RELATED TO CARRYOVER OF CREDITS.—

(1) Subparagraph (B) of section 55(c)(3) of such Code (relating to carryover and carryback of certain credits) is amended—

(A) by striking out "or 44F" in clause (i) and inserting in lieu thereof "44F, or 44I", and

(B) by inserting "44I(b)(1)," after "44F(g)(1)," in clause (ii).

(2) Subsection (c) of section 381 of such Code (relating to items of the distributor or transferor corporation) is amended by adding at the end thereof the following new paragraph:

"(31) CREDIT UNDER SECTION 44I.—The acquiring corporation shall take into account (to the extent proper to carry out the purposes of this section and section 44I, and under such regulations as may be prescribed by the Secretary) the items required to be taken into account for purposes of section 44I in respect of the distributor or transferor corporation.".

(3)(A) Section 383 of such Code (relating to special limitations on unused investment credits, work incentive program credits, new employee credits, alcohol fuel credits, research credits, employee stock ownership credits, foreign taxes, and capital losses), as in effect for taxable years beginning with and after the first taxable year to which the amendments made by the Tax Reform Act of 1976 apply, is amended—

(i) by inserting "to any unused credit of the corporation under section 44I(b)(2)," after "44G(b)(2),", and

(ii) by inserting "increased shipping costs credits," after "employee stock ownership credits," in the section heading.

(B) Section 383 of such Code (as in effect on the day before the date of the enactment of the Tax Reform Act of 1976) is amended—

(i) by inserting "to any unused credit of the corporation which could otherwise be carried forward under section 44I(b)(2)," after "44G(b)(2),", and

(ii) by inserting "increased shipping costs credits," after "employee stock ownership credits," in the section heading.

(C) The table of sections for part V of subchapter C of chapter 1 of such Code is amended by inserting "increased shipping costs credits," after "employee stock ownership credits," in the item relating to section 383.

(c) OTHER TECHNICAL AND CLERICAL AMENDMENTS.—

(1) Subsection (b) of section 6096 of such Code (relating to designation of income tax payments to Presidential Election Campaign Fund) is amended by striking out "and 44H" and inserting in lieu thereof "44H, and 44I".

(2) The table of sections for subpart A of part IV of subchapter A of chapter 1 of such Code is amended by inserting after the item relating to section 44H the following new item:

"Sec. 44I. Credit for qualified increased shipping costs.".

SEC. 203. EFFECTIVE DATE.

The provisions of this title shall apply to taxable years beginning after the enactment of this title.

TITLE III

SEC. 301. SHORT TITLE.

This title may be cited as the "Shipyard Facilities Capital Construction Fund Act of 1983".

SEC. 302. CAPITAL CONSTRUCTION FUNDS FPR SHIPYARD CONSTRUCTION AND REPAIR FACILITIES.

Section 607 of the Merchant Marine Act of 1936 (46 U.S.C. 1177) is amended—

(1) in subsection (a) by amending such subsection to read as follows:

"(a)(1) Any citizen of the United States owning or leasing one or more eligible vessels (as defined in subsection (k)(1)), or one or more eligible shipyard facilities (as defined in subsection (k)(10)), may enter into an agreement with the Secretary under, and as provided in, this section to establish a capital construction fund (hereinafter in this section referred to as the 'fund') with respect to any or all of such vessels or facilities. Any agreement entered into under this section—

"(A) shall be for the purpose of providing—

"(i) replacement vessels, additional vessels, or reconstructed vessels, built in the United States and documented under the laws of the United States for operation in the United States foreign, Great Lakes, or domestic trade, or in the fisheries of the United States; or

"(ii) for the construction, reconstruction, or repair of a shipyard facility; and

"(B) shall provide for the deposit in the fund of the amounts agreed upon as necessary or appropriate to provide for qualified withdrawals under subsection (f).

"(2) The deposits in the fund, and all withdrawals from the fund, whether qualified or nonqualified, shall be subject to such conditions and requirements as the Secretary may by regulation prescribe or are set forth in such agreement; except that the Secretary may not require any person to deposit in the fund for any taxable year more than 50 percent of that portion of such person's taxable income for such year, as computed in the manner provided in subsection (b)(1)(A) which is attributable to the operation of any agreement vessel or agreement shipyard facility.";

(2) in subsection (b) by amending such subsection to read as follows:

"(b)(1) The amount deposited under subsection (a) of this section in the fund for any taxable year shall not exceed the sum of—

"(A) that portion of the taxable income of the owner or lessee for such year (computed as provided in chapter 1 of the Internal Revenue Code of 1954 but without regard to the carryback of any net operating loss or net capital loss and without regard to this section) which is attributable to the operation of the agreement vessels in the foreign or domestic commerce of the United States or in the fisheries of the United States or the operation of any agreement shipyard facility in the construction, reconstruction, or repair of any vessel;

"(B) the amount allowable as a deduction under section 167 of the Internal Revenue Code of 1954 for such year with respect to the agreement vessels or any agreement shipyard facility;

"(C) if the transaction is not taken into account for purposes of subparagraph (A), the net proceeds (as defined in joint regulations) from (i) the sale or other disposition of any agreement vessel or any agreement shipyard facility; or (ii) insurance or indemnity attributable to any agreement vessel or any agreement shipyard facility; and

"(D) the receipts from the investment or reinvestment of amounts held in such fund.

"(2) In the case of a lessee, the maximum amount which may be deposited with respect to an agreement vessel or an agreement shipyard facility by reason of paragraph (1)(B) for any period shall be reduced by any amount which, under an agreement entered into under this section, the owner is required or permitted to deposit for such period with respect to such vessel or facility by reason of paragraph (1)(B).

"(3) For purposes of paragraph (1), the term 'agreement vessel' includes barges and containers which are part of the complement of such vessel and which are provided for in the agreement";

(3) in subsection (f) by amending the first sentence to read as follows:

"(f)(1) A qualified withdrawal from the fund is one made in accordance with the terms of the agreement but only if it is for—

"(A) the acquisition, construction, or reconstruction of a qualified vessel or qualified shipyard facility;

"(B) the acquisition, construction, or reconstruction of barges and containers which are part of the complement of a qualified vessel;

"(C) the payment of the principal on indebtedness incurred in connection with the acquisition, construction, or reconstruction of a qualified vessel or a barge or container which is part of the complement of a qualified vessel; or

"(D) the payment of the principal or indebtedness incurred in connection with the acquisition, construction, reconstruction, or repair of any qualified shipyard facility.";

(4) in subsection (g) by amending paragraphs (2), (3), and (4) tc read as follows:

"(2) If any portion of a qualified withdrawal for a vessel, barge, container, or shipyard facility is made out of the ordinary income account, the basis of such vessel, barge, container, or shipyard facility shall be reduced by an amount equal to such portion.

"(3) If any portion of a qualified withdrawal for a vessel, barge, container, or shipyard facility is made out of the capital gain account, the basis of such vessel barge, container, or shipyard facility shall be reduced by an amount equal to—

"(A) five-eighths of such portion, in the case of a corporation (other than an electing small business corporation, as defined in section 1371 of the Internal Revenue Code of 1954), or

"(B) one-half of such portion, in the case of any other person.

"(4) If any portion of a qualified withdrawal to pay the principal on any indebtedness is made out of the ordinary income account or the capital gain account, then an amount equal to the aggregate reduction which would be required by paragraphs (2) and (3) if this were a qualified withdrawal for a purpose described in such paragraphs shall be applied, in the order provided in joint regulations to reduce the basis of vessels, barges, and containers or any shipyard facility owned by the person maintaining the fund. Any amount of a withdrawal remaining after the application of the preceding sentence shall be treated as a nonqualified withdrawal."; and

(5) in subsection (k) by adding at the end thereof the following new paragraphs:

"(10) The term "eligible shipyard facility' means any facility for the construction, reconstruction, repair, or maintenance of any vessel, or any section 1231(b) property used therein, which is located in the United States.

"(11) The term 'qualified shipyard facility' means any shipyard facility which the person maintaining the fund agrees with the Secretary shall be constructed, reconstructed, repaired, and operated in the United States.

"(12) The term 'agreement shipyard facility' means any eligible shipyard facility or qualified shipyard facility which is subject to an agreement entered into under this section.".

Senator STEVENS. Very well. Our first witness is Senator Rudy Boschwitz. Senator, we are happy to have you here today.

STATEMENT OF HON. RUDY BOSCHWITZ, U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. Thank you, Mr. Chairman.

I trust an abbreviated form of my statement is being distributed. As you say, there is less than perfect agreement on this issue, as there are on many issues that we face.

I appreciate the opportunity of appearing here. The cargo preference laws are of major interest to all of those who are concerned about U.S. commercial trade, as I know you are. This helps to explain why two of the bills before this subcommittee, S. 1616 and S. 1624, that Senator Trible was just speaking about, have been the subject of a great deal of discussion.

Very simply, these two bills dramatically alter the application of cargo preference to U.S. commercial trade to the detriment of many concerned.

Mr. Chairman, I ask that two items be added to the record. The first is a letter to me signed by 19 agricultural groups and associations, urging my support for Senate Concurrent Resolution 56, which I have cosponsored, and which expresses the sense of the Congress that cargo preference should not be expanded. The second contains the views of the U.S. Great Lakes Shipping Association, and indicates that legislation such as S. 1616 and S. 1624 would adversely affect shipping and threaten the viability of all ports in the Great Lakes.

These two items are just a sampling of the widespread opposition to expanded cargo preference under 1616 and 1624. In my view, and in the view of many, existing cargo preference laws have not accomplished their original objectives, namely, promoting the strong and viable U.S. merchant marine that both of you gentlemen have just spoken about. It follows therefore that expansion of cargo preference laws to cover a larger volume of U.S. oceanborne trade will certainly not with any assurance promote a strong and viable U.S. shipping industry—and if these cargo preference laws are passed, there is an indication that that will not be the result.

Let us just take a look at some of the numbers. Since enactment of the 1954 Public Law 664, the Cargo Preference Act, and Public Law 480, the food-for-peace program, we have seen the following results. One, ocean transportation costs for Public Law 480 increased from $9.6 million in fiscal year 1955 to $314 million in fiscal year 1982. That is more than a thirtyfold increase in the cost of the Public Law 480 shipments. The Public Law 480 shipments in volume have increased fivefold, on the other hand. The ocean transportation costs of Public Law 480 escalated from 4 percent of total program costs in 1955 to 25 percent of total program costs in fiscal year 1982.

The third result is the rapid decline in the U.S. maritime industry reflected by the decline in shipbuilding in U.S. shipyards that Senator Trible has spoken about—30 ships built on the average during the late fifties compared to 10 in the eighties.

U.S. oceanborne trade carried on U.S.-flag vessels declined from 23.5 percent of the total volume in 1955 to 3.5 percent of the total volume in 1982, and it has been at that 3.5 percent for a number of years now, and the decline in the employment numbers of the U.S. merchant marine went from 57,000 to about 18,000 from the year 1955 to 1982. U.S. shipping rates have likewise become less competitive.

In 1955, the first year following enactment of the Cargo Preference Act, the average differential between U.S.-flag shipping rates and foreign-flag shipping rates under Public Law 480 was $2.35 a ton. That is a very important figure, Mr. Chairman. When the act was passed, the intention of the act was to perhaps make up for a $2-a-ton difference. Now that differential has skyrocketed to $60 per ton on the average, and often it is more.

Back in February 1982, I received a letter from one of the large grain trading companies of Minnesota, and they pointed out to me that in one instance where we were trading with Egypt, that the world rate was $22 a ton, and the bids that they received on the cargo preference were $104 a ton, which was the equivalent of 88 percent of the value of the goods shipped, so that cargo preference is a much different matter now than it was in 1955, when the law was passed, and the penalty associated with cargo preference, which was slight at that time, is very substantial, three and sometimes four times the amount of the actual freight, a multiplier on the freight of three or four times.

It is clear to me, and the numbers support this very well, that cargo preference has not been and will never be the source of recovery and rejuvenation for the U.S. maritime industry. Both S. 1616 and S. 1624 would expand the proportion of U.S. oceanborne trade subject to cargo preference. S. 1624 would require that eventually 20 percent of U.S. commercial imports and exports must be shipped on U.S.-flag vessels, and that translates into at least 160 million tons on U.S.-flag ships.

This provision would either, one, increase the overseas landed cost of U.S. products and decrease the foreign demand for U.S. products; two, in a mânner very similar, in my judgment, due to the high cost of the dollar on today's international market, it would maintain the same overseas landed cost while decreasing the price received by producers in this country; or, three, increase the budgetary outlays necessary to offset the adverse impact that S. 1624 would have on U.S. exports.

The 20 percent requirement would lead to about a $5.7 billion decline in U.S. exports, and that would be between 114,000 and 171,000 jobs—far more than have been lost because of the decline of American-flag ships. Of this amount, agricultural exports would comprise about $2 billion of the decline, and generate about 60,000 layoffs in various parts of the country.

In any event, the economic implications of S. 1624 are negative not only in terms of potentially declining employment, declining exports, and increased inflation, but also in terms of the massive destruction and dislocation of individual lives which would follow. How in this day and age we can justify support for legislation which has the clear potential for causing a net decline in jobs, a net increase in prices, and a net decrease in exports is beyond me.

S. 1616 would have the same basic economic effects as S. 1624, and to get an idea of the potential magnitude of S. 1616, the impact of it, that it would have on exports, it is worthwhile to take a look at just one sector, agriculture, which would be particularly adversely affected. Section 4 of S. 1616 applies directly to certain export credit programs administered by the Department of Agriculture.

In fiscal year 1983, $4.8 billion was authorized for credit guarantees, and $350 million was authorized for direct credits. That is $5.1 billion in total credits, not concessional sales of farm products, and these would have been subject to section 4 of S. 1616 had S. 1616 been enacted during fiscal 1983. If that had been the case, then exports, which declined from $39.1 billion in fiscal 1982 to $34.5 billion in fiscal 1983, would have declined even further, probably by all of that $5 billion. This is because we are talking about commodities, where a few dollars a ton makes the difference between a sale or the loss of a sale.

The credits could finance commercial sales of 35 million tons of grain at $150 per ton, and S. 1616 would apply cargo preference to the entire tonnage. Moreover, it requires a credit recipient to agree to terms of 100 percent cargo preference for U.S.-flag ships. As a result, the only way that any of these cargoes could have moved is if the U.S. Government paid the ocean freight differential. This is because the $60.50 per ton freight differential on $150 per ton commodity translates into an additional 40-percent interest for 1 year's credit, and an additional 19-percent interest for 2 years' credits.

After adding on commercial rates of interest of about 10 percent, the lending institution would have ended by offering the commercial customer for U.S. farm products the credit package for the equivalent of either 50 percent interest on 1 year or 29 percent interest on 2 years. In short, no one would have asked for credits, $5.15 billion in commercial export sales would have been lost, and exports would have declined to $29.3 billion, instead of $34.5 billion, where they have unfortunately already declined to.

I have concentrated my testimony on the costs and benefits to our society of more comprehensive cargo reservation schemes. I am thoroughly convinced that cargo preference is a crutch which prevents the U.S. maritime industry from becoming fully viable and competitive in international markets. I am equally convinced that giving the maritime industry an additional crutch, expanded cargo preference, will perpetuate the industry's inability to become competitive. More importantly, it would affect a broad spectrum of American society in ways which are detrimental to the U.S. economy and society as a whole.

In all likelihood, legislation such as S. 1616 and S. 1624 would increase prices, decrease employment, and depress exports.

Thank you, Mr. Chairman.

[The statement and attachments referred to follow:]

STATEMENT OF HON. RUDY BOSCHWITZ, U.S. SENATOR FROM MINNESOTA

Mr. Chairman, I appreciate the opportunity to appear before the Subcommittee on Merchant Marine to discuss the implications of several cargo preference bills. Cargo preference laws are a major interest to all of those who are concerned with U.S. commercial trade: shippers, trading companies, domestic industry and agriculture and the merchant marine. Their interests and their concerns about cargo preference are especially aroused whenever there are proposals—bills, resolutions, etc.—which alter the application of existing cargo preference laws to U.S. commercial trade. This helps to explain why two of the bills before this subcommittee, S. 1616 and S. 1624, have been the subject of a great deal of discussion. Very simply, these two bills dramatically alter the application of cargo perference to U.S. commercial trade, to the detriment of many concerned. Mr. Chairman, I ask that two items be added to the Record: the first is a letter to me signed by 19 agricultural groups and associations urging my support for S. Con. 56, which I have cosponsored and which expresses the sense of Congress that cargo preference should not be expanded; the second contains the views of the U.S. Great Lakes Shipping Association, and indicates that shipping in the Great Lakes would be adversely affected by legislation such as S. 1616 and S. 1624 and would threaten the viability of all ports in the Great Lakes region. These two items are just a sampling of the widespread opposition to expanded cargo preference under S. 1616 and S. 1624.

This is not to say that these bills are intended to impact negatively on those involved in U.S. commercial trade. The underlying objective of both S. 1616 and S. 1624 is to promote a strong and viable U.S. merchant marine and shipping industry. This is a laudatory objective. Proponents of these bills argue that cargo preference is a useful tool for promoting the U.S. merchant marine and the shipping industry and that other U.S. industries will benefit from strengthening of the U.S. maritime industry. For example, the U.S. steel industry, and labor, would benefit from increased domestic U.S. shipbuilding. By this reasoning, the proponents of these bills conclude that an increase in the proportion of U.S. oceanborne trade subject to cargo preference will generate net economic benefits for the United States.

In my view, and in the view of many others, existing cargo preference laws have not accomplished their original objective—promoting a strong and viable U.S. merchant marine and shipbuilding industry. It follows, therefore, that expansion of cargo preference laws to cover a larger volume of U.S. oceanborne trade will likewise not promote a more strong and viable U.S. shipping industry. At the same time, other sectors of the U.S. economy involved in and dependent on commercial trade will be adversely affected by more comprehensive cargo preference laws. For these reasons, legislation such as S. 1616 and S. 1624 would not accomplish the objective of promoting a more viable U.S. shipping industry and would simultaneously disrupt and disadvantage many trade dependent sectors of the U.S. economy.

CARGO PREFERENCE HAS NOT PROMOTED A STRONG AND VIABLE MERCHANT MARINE AND SHIPPING INDUSTRY

There is nothing in the historical record to suggest that cargo reservation for U.S. flag vessels has promoted a strong and viable U.S. merchant marine and shipping industry. As a result, there is no reason to believe that expanded cargo preference, as provided for in S. 1616 and section 104 of S. 1624, would help strengthen the U.S. merchant marine and shipping industry. Indeed, there is good reason to deduce that the opposite will occur. Let's just take a look at the numbers.

Comprehensive statistics are available on the transportation costs of the Public Law 480 program (Food for Peace). The Public Law 480 program ws enacted at nearly the same time as Public Law 664, the Cargo Preference Act of 1954. Public Law 664 for the first time attached mandatory cargo preference requirements to non-military shipments. These requirements pertained primarily to the Public Law 480 program. The objective, quite similar to that in the legislation under discussion at today's hearing, was to promote the U.S. merchant marine and shipping industry by assuring that U.S. flag ships had cargoes. This was to offset the trend, at that time, of a declining proportion of U.S. oceanborne trade moving on U.S. vessels.

What has happened since the enactment of Public Law 480? The transportation costs of the Public Law 480 program escalated from $9.6 million in fiscal year 1955 to $314.4 million in fiscal year 1982, a more that thirtyfold increase.[1] During the same period, the value of commodities purchased under Public Law 480 increased only moderately, from $206.2 million in 1955 to $1,033 million in 1982.[2] What this means is that during the first year of operation of the 1954 Cargo Preference Act, transportation charges for using U.S. flag ships comprised only four percent of total Public Law 480 program costs, but by fiscal 1982 these transportation charges has zoomed to nearly 25 percent of total Public Law 480 program costs.[3]

Unfortunately, the burgeoning transportation charges resulting from the Cargo Preference Act of 1954 have not served to promote a strong and viable U.S. maritime industry which is competitive in international markets. In 1955, the United States flag merchant marine comprised 27 percent of the world's total deadweight tonnage and 22 percent of the world's total number of vessels.[4] By 1982, the United States flag merchant marine comprised only 3.3 percent of the world's total number of merchant ships and only 4.1 percent of the world's total deadweight tonnage.[5] The proportion of U.S. oceanborne foreign trade carried on U.S. flag vessels declined by a comparable magnitude, from 23.5 percent of total volume in 1955 to about 3.5 percent of total volume in 1982.[6] Employment numbers for the merchant marine likewise declined precipitously, from 57,500 in 1955 to 18,000 in 1982.[7] Finally, the number of merchant vessels completed by U.S. shipyards declined from an average of 30 during the late 1950's to an average of 10 during the 1980's.[8] These numbers clearly show that a precipitous and rapid decline in the U.S. maritime industry has accompanied the enactment in 1954 of permanent cargo preference legislation. Either this legislation was the cause of the decline or it was not the proper prescription for alleviating the maladies of the U.S. maritime industry.

Not only has the enactment of permanent cargo preference legislation been followed by major declines in the size and viability of the U.S. maritime industry, but it has also been accompanied by a decline in U.S. competitiveness, most especially in terms of U.S. shipping rates. In 1955, the year following enactment of the Cargo Preference Act, the average differential between U.S. flag shipping rates and foreign flag shipping rates under Pub. L. 480 was $2.35 per ton.[9] By 1982, this differential had skyrocketed to $60.50 per ton, nearly a thirtyfold increase.[10]

What I am saying here is that we had better rethink our original prescription, that outlined by the 1954 Cargo Preference Act, before we apply larger and larger doses of the same medicine under the expanded cargo preference provisions of either S. 1616 or S. 1624. It is clear to me, and the numbers support this very well, that cargo preference has not been and will never be the source of recovery and rejuvenation for the U.S. maritime industry.

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[1] Actual ocean transportation outlays, Title I and II, U.S. Department of Agriculture.

[2] Actual commodity costs, Titles I and II, U.S. Department of Agriculture.

[3] Actual ocean transportation outlays, Titles I and II, divided by the sum of actual ocean transportation and actual commodity costs, Titles I and II, U.S. Department of Agriculture.

[4] U.S. Department of Transportation, MARAD ("Merchant Fleets of the World"). The U.S. numbers, and the corresponding percentages are upward biased because they include U.S. government owned vesels.

[5] Ibid.

[6] For 1955, U.S. Department of Transportation, MARAD (1970 Yearbook); for 1982, U.S. Department of Commerce, Bureau of the Census.

[7] U.S. Department of Commerce (Statistical Abstract of the United States, various years).

[8] Ibid.

[9] For Title I sales; U.S. Department of Agriculture.

[10] Ibid.

EXPANDED CARGO PREFERENCE UNDER S. 1616 OR S. 1624 WOULD ADVERSELY AFFECT THE TRADE DEPENDENT SECTORS OF THE U.S. ECONOMY

Both S. 1616 and S. 1624 would expand the proportion of U.S. oceanborne trade subject to cargo preference. Section 104 of S. 1624 would increase this proportion from its current level of about 3.5 percent to at least 20 percent by the year 2000. More important, S. 1624 extends cargo preference to all U.S. oceanborne trade—including, for the first time, private commercial sales. Since U.S. commercial imports and exports have never been subject to cargo preference laws, section 104 of S. 1624 is unprecedented in scope.

Section 4 of S. 1616 expands existing cargo preference laws to shipments which indirectly involve the U.S. Government. Section 4 essentially makes Public Resolution 17 mandatory. Previously, Public Resolution 17 had only been applied toward Eximbank generated shipments. Section 4 of S. 1616 would mandate that any U.S. commercial shipments which have been facilitated in any way by U.S. government financing must be shipped on U.S. flag vessels. This would make any government credit or financing program—loans, credit guarantees and direct credits—subject to cargo preference.

Proponents of S. 1616 and S. 1624 argue that there will be beneficial multiplier effects which will result from the increased shipbuilding that is expected to be encouraged by expanded cargo preference. For example, the maritime trades department and the seafarer's international union of the AFL-CIO estimate that S. 1624 will add 112,000 jobs to the economy, in shipbuilding and related industries.[11]

There are two problems with this argument, one of which I've already touched on. The first problem is in the presumption that cargo preference will promote increased shipbuilding. As I indicated earlier, there is nothing in the historical record to lead one to believe that such a correlation exists. In fact, the numbers lead you in the opposite direction.

The second problem is in attempting to estimate "beneficial multiplier effects" for the U.S. economy by concentrating only on one of the sectors affected by cargo preference, namely, shipbuilding and related industries. By relying on this type of approach, one gets what amounts to severe tunnel vision and cannot possibly begin to appreciate the ramifications of more comprehensive cargo preference laws.

The S. 1624 requirement that, eventually, 20 percent of U.S. commercial exports and imports must be shipped on U.S. flag vessels, translates into an enormous volume of trade. During the 1980's, the U.S. Trade volume has averaged about 800 million metric tons, of which less than 30 million tons on average has been transported on U.S. vessels.[12] The 20 percent requirement translates into at least 160 million tons on U.S. flag ships, and this assumes that the U.S. trade volume stagnates over the next 15 years.[13] This S. 1624 provision would do one of two things:

a. increase the overseas landed cost of U.S. products and decrease the foreign demand for U.S. products; or,

b. increase the budgetary outlays necessary to offset any sort of adverse impact that the S. 1624 cargo preference provisions have on U.S. exports.

There could, of course, be some sort of combination of these two effects.

The potential decline in exports has a "multiplier effect", namely, a corresponding decline in U.S. domestic employment in the trade dependent sectors—agriculture, mining and certain manufacturing industries. The number of domestic jobs associated with each $1 billion of exports varies, from 20,000 for various industrial sectors to over 30,000 for agriculture.[14] The 20 percent requirement under S. 1624 would, assuming that about half of the affected 160 million tons were exports valued at average 1982 prices per ton, translate into about a $5.7 billion decline in U.S. exports (more of less depending on whether of not foreign demand for U.S. products is more or less "elastic").[15] This, in turn, implies a decline in U.S. domestic employ-

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[11] AFL-CIO, testimony on H.R. 1242, May 4, 1983.

[12] U.S. Department of Commerce, Bureau of the Census.

[13] The 160 million tons is 20 percent of 800 million tons.

[14] U.S. Department of Agriculture.

[15] The $5.7 billion is a "ballpark" figure, as indicated in the next paragraph. Primary source for calculating the decline is U.S. Department of Commerce, Bureau of the Census, data on 1982 U.S. oceanborne export volume and value (f.a.s. basis). An export unit value for U.S. oceanborne exports is derived from the latter data. The export unit value is comparable to an "average price" of U.S. exports, and for 1982 it was about $310 per metric ton. Current ocean freight differentials on PL-480 are equivalent to about 23 percent of this export unit value. The $5.7 billion figure is derived by assuming that there is a "unit elasticity of demand" for U.S. products in overseas markets. It could be more or less—no one has made such an estimate, that's why

Continued

ment of 114,000 to 171,000 depending on which sectors of the economy were most affected.[16] of this amount, agricultural exports would comprise about $2 billion of the export decline and generate about 60,000 of the employment decline.[17]

These numbers are cursory, at best, but they show that we must simultaneously consider all of the sectors affected by this legislation. For example, S. 1624 would also affect importers and employment and prices in import dependent sectors. The American Petroleum Institute estimates that the 20 percent requirement would increase domestic energy costs by $29 billion ($125 per person) a year, all because of the increased costs of importing petroleum on U.S. flag vessels.[18] The rise in energy costs would lead to price increases and employment impacts in energy dependent sectors of the economy. The same would be true for other imports, but most likely the effects would not be nearly as large as those which would be associated with petroleum imports.

In any event, the economic implications of S. 1624 are negative not only in terms of potentially declining employment, declining exports and increased inflation, but also in terms of the massive disruption and dislocation of individual lives which would follow. This legislation entails a tradeoff which should be closely examined and scrutinized, namely, under what justification do we attempt to promote and support the maritime industry at the expense of production and employment in the efficient, trade dependent sectors of the economy? How, in this day and age, can we justify support for legislation which has the clear potential for causing a net decline in jobs, a net increase in prices and a net decrease in exports?

Some of the employment and trade effects of S. 1624 could be offset, but only with increased budgetary outlays. For example, the government could dole out an ocean freight differential to importers and exporters. The cost: Based on the 20 percent requirement and 1982 ocean freight differentials and trade volumes, about $4.5 billion a year for exports and about $5.1 billion a year for imports—or an annual outlay of $9.6 billion for ocean freight differential subsidies alone.[19] This is 80 times as much as fiscal 1982 outlays of $120 million for ocean freight differential subsidies.[20] There would also be increased government outlays for shipbuilding, which have been estimated at nearly $6 billion a year.[21] That is, under S. 1624 it would cost $15.6 billion annually just to subsidize shipbuilding and to offset the negative trade effects of higher shipping rates for U.S. flag vessels. This compares with an outlay of about $10 billion dollars in total to subsidize the maritime industry over the past 45 years—that is, one year of government subsidization for programs of-

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this one is a "ballpark" figure. The 23 percent ocean freight differential would amount to a 23 percent price increase on the exports subject to cargo preference. Under S. 1624, this is conservatively estimated as one-half of 20 percent of the annual 1980's average of 800 million metric tons of U.S. oceanborne trade (20 percent is the S. 1624 requirement, or 160 million metric tons, and it is assumed that one-half of this is exports, or 80 million metric tons). The "unit elasticity of demand" tells us that the 23 percent rise in the effective price of this tonnage will lead to a decline in export volume of 23 percent, or a volume decline of 18.4 million metric tons. Finally, 18.4 million metric tons times a 1982 average f.a.s. export unit value of $310 per metric ton (in this analysis, the export unit value does not change) equals $5.704 billion, the figure in the statement.

[16] 20,000 per $1 billion drop in exports times $5.7 billion equals 114,000, the lower range of the employment decline, and 30,000 per $1 billion drop in exports times $5.7 billion equals 171,000, the upper range of the employment decline.

[17] Calculated using the same procedure as that outlined in note 15. In 1982, the f.a.s. agricultural export unit value was about $245 per metric ton and export volume was about 160 million metric tons. Under S. 1624, 32 million metric tons would be subject to cargo preference. Recent ocean freight differentials are equivalent to about 27 percent of this unit value. Thus, there would be an effective 27 percent price increase on 32 million metric tons of agricultural commodities, implying, using the unit elasticity, a 27 percent volume decline on the 32 million metric tons—or, a decline of 8.64 million metric tons. The 8.64 million metric tons times $245 per metric ton equals $2.117 billion, or "about $2 billion" as indicated in the text. 30,000 per $1 billion decline in exports times $2 billion provides the employment decline of 60,000.

[18] American Petroleum Institute, Testimony on H.R. 1242, May 5, 1983. The $125 per person figure is $29 billion divided by 230 million.

[19] The $60 per metric ton fiscal year 1982 ocean freight differential under Title I, Public Law-480 (U.S. Department of Agriculture) times 20 percent of an average 800 million metric tons of U.S. oceanborne trade (or about 160 million metric tons; U.S. Department of Commerce, Bureau of the Census) gives the total ocean freight differential subsidy of $9.6 billion. The distribution between costs for imports and exports is based on oceanborne export volume as a percentage of total oceanborne trade volume (U.S. Department of Commerce, Bureau of the Census).

[20] Rounded off from $120,119,970 in fiscal year 1982 ocean freight differential subsidies for Title I, Public Law 480, U.S. Department of Agriculture.

[21] Rounded off from $5.87 billion in total government outlays, Federation of American Controlled Shipping, Testimony on H.R. 1242, May 5, 1982.

fered under S. 1624 would exceed by over 50 percent the costs of subsidizing the maritime industry over the past 45 years.[22]

S. 1616 would have the same basic economic effects as S. 1624. That is, it would lead to some combination of reduced exports, increased unemployment and increased budgetary outlays. It is not possible to detail all of the government credit programs that would be affected by S. 1616. The legislation would invite a great deal of research and investigation in determining the number of programs to be covered by cargo preference.

However, in order to get an idea of the potential magnitude of impact that S. 1616 would have on exports, it is worthwhile to take a look at just one sector—agriculture—which would be particularly adversely affected. Section 4 of S. 1616 applies directly to certain export credit programs administered by the Department of Agriculture. These are the credit guarantee (GSM-102) and direct credit (GSM-5) programs. In fiscal year 1983, $4.8 billion was authorized for credit guarantees and $350 million was authorized for direct credits.[23] All the credits are used to finance overseas commercial sales of U.S. farm products.

The fiscal 1983 credit authorizations are particularly large. This is because exports are projected to decline for the second year in a row, from $39.1 billion in fiscal 1982 to $34.5 billion in fiscal 1983.[24] Financial constraints in certain importing countries are responsible for the decline, and additional export credits help to alleviate the downward pressure on exports.

Furthermore, part of the export decline derives from price cutting and export subsidies practiced by our export competitors. To counteract this practice, a "blended credit" program was developed. This program mixes credit guarantees at commercial rates of interest with direct credits at a zero rate of interest to produce a lower rate of interest on an overall credit package. The two types of credit are "blended" at a five-to-one ratio (guarantees to direct credits). As a result, in fiscal 1983, $2.1 billion was used for blended credit ($1.75 billion of credit guarantees and $350 million of direct credits) and $3.05 billion was used for credit guarantees. These two programs helped to assure that U.S. agricultural exports did not decline any further than they did.

The $5.15 billion in total credits financed commercial, not concessional sales of farm products. This $5.15 billion in sales would have been subject to section 4 of S. 1616, had S. 1616 been enacted during fiscal 1983. If that had been the case, then exports would have declined even lower than $34.5 billion. Blended credits could facilitate sales of 14.0 million tons of grain at an average of $150 per ton.[25] The credit guarantees could facilitate commercial sales of 20.33 million tons of grain at an average of $150 per ton.[26] There is no provision in S. 1616 which would offset the ocean freight differential of $60.50 per ton. However, S. 1616 applies cargo preference to the entire tonnage and, moreover, requires the credit recipient to agree to terms of 100 percent cargo preference. The only way that any of these cargoes would have moved is if the U.S. government paid the ocean freight differential. This is because the $60.50 per ton differential on a $150 per ton commodity translates into an additional 40 percent interest for one year credits and an additional 19 percent interest for two year credits.[27] After adding on commercial rates of interest of about ten percent, the lending institution would have ended up offering the commercial customer for U.S. farm products a credit package with either 50 percent interest on one year terms or 29 percent interest on two year terms.[28] In short, no one would have asked for credits, $5.15 billion in commercial sales would have been lost and exports would have declined to $29.35 billion.[29] The additional $5.15 billion decline in exports would also have led to a 154,500 decline in U.S. domestic employment.[30]

The loss in commercial export sales which would be caused by S. 1616 could be counteracted only by increased budgetary outlays. If the outlays were made additional to the $5.15 billion in export credits, and the ocean freight differential was paid on the entire volume of shipments, then commercial exports would not decline. However, there would be an additional budgetary outlay of $2.08 billion.

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[22] U.S. Department of Transportation, MARAD (1981 Yearbook) lists total subsidies during 1936-1981 as $9,704,805,160.

[23] Office of Management and Budget, Appendix to the Budget for Fiscal Year 1984.

[24] U.S. Department of Agriculture; fiscal year 1983 figure is latest forecast.

[25] $2.10 billion divided by $150 per metric ton.

[26] $3.05 billion divided by $150 per metric ton.

[27] $60.50 is 40.33 percent of $150 on a one year basis and $60.50 as a percent of $150 when discounted for two years is 18.56 percent (compounded).

[28] 50 percent on one year terms is 40 plus an assumed commercial rate of 10 percent and 29 percent on two year terms is 19 plus an assumed commercial rate of 10 percent

[29] U.S. Department of Agriculture fiscal year 1983 forecast of $34.5 billion, minus $5.15 billion.

[30] 30,000 per $1 billion in export decline times a decline of $5.15 billion.

CONCLUDING REMARKS

I have concentrated in my testimony on the economic implications of S. 1616 and S. 1624. Of course, this legislation has other, very specific implications, perhaps of equal importance. For example, section 105 of S. 1624 outlines a procedure for calculating "guideline rates" on U.S. flag vessels. MARAD's previous experience with guideline rates (1955-1971) indicates straightforward that administration of the rates will be a bureaucratic nightmare. The red tape and paperwork associated with administering the rates could easily interfere with and interrupt normally smooth flows.

However, I have tried to concentrate on more basic issues, including the costs and benefits to our society of more comprehensive cargo reservation schemes. I am thoroughly convinced that cargo preference is a crutch which prevents the U.S. maritime industry from becoming fully viable and competitive in international markets. I am equally convinced that giving maritime industry an additional crutch—expanded cargo preference—will perpetuate the industry's inability to become competitive. More importantly, it would affect a broad spectrum of American society—workers, shippers, traders, industry, agriculture—in ways which are detrimental to the U.S. economy and society as a whole. In all likelihood, legislation such as S. 1616 and S. 1624 would increase prices, decrease employment and depress exports.

What we should be looking at and developing is a method to make the maritime industry more competitive. What we need is an alternative to cargo preference, not more cargo preference.

SEPTEMBER 22, 1983.

Hon. RUDY BOSCHWITZ,
U.S. Senate,
Washington, D.C.

DEAR SENATOR BOSCHWITZ: The undersigned agricultural organizations urge you to join a growing, bipartisan group of members of Congress in opposition to expanded maritime cargo preference. We invite you to become a cosponsor of S. Con. Res. 56 (attached) introduced by Senators Roger Jepsen and Nancy Landon Kassebaum.

Expanded cargo preference on farm, fertilizer, and forest product exports will increase consumer costs, eliminate jobs, depress producer income, and shrink U.S. agricultural sales abroad.

Cargo preference guarantees that a fixed percentage of U.S. cargoes must be shipped in U.S. commercial maritime vessels which charge up to 300 percent above the world average. This additional transportation cost amounts to about 30 percent of the value of agricultural exports.

If the U.S. attempts to pass along increased cargo preference costs to our foreign customers, American bulk agricultural exports will become uncompetitive in world markets. When added to U.S. import costs, foreign products (such as fertilizer) will become more expensive for consumers. The agricultural marketing chain will be forced to pass cargo preference costs back to producers in the form of lost income.

When the U.S. Treasury is forced to underwrite cargo preference for government shipments, valuable tax revenues are lost. Last year, preference subsidies contributed at least $150 million to the widening federal deficit.

Lost farm trade also means lost jobs. Each $1 billion in agricultural exports employs 30,000 Americans. In fiscal year 1982, farm exports created $41 billion in additional business in the nonfarm community, business that would not have existed without those exports.

We urge you to support U.S. agriculture to prevent Congress from "taxing" American producers to pay for expanded maritime cargo preference programs. To become a co-sponsor of S. Con. Res. 56, please phone the office of either Senator Jepsen (224-3254) or Senator Kassebaum (224-4474).

Sincerely,

Gary D. Myers,
The Fertilizer Institute.
Macon Edwards,
National Cotton Council of America.
Tim Clarke,
Florida Phosphate Council.
Elbert Harp,

John Baize,
American Soybean Association.
Wayne Boutwell,
National Council of Farmer Cooperatives.
Alvin E. Oliver,
National Grain & Feed Association.
Robert E. Peterson,

Grain Sorghum Producers Association.
Roy Henwood,
Millers' National Federation.
George Watts,
National Broiler Council.
Michael Hall,
National Corn Growers Association.
Stephen Gabbert,
Rice Millers' Association.
Robert D. Fondahn,
Protein Grain Products International.
Walt Jaenicke,
National Forest Products Association.
National Grain Trade Council.
Carl Schwensen,
National Association of Wheat Growers.
Ed Anderson,
National Grange.
Sheldon Hauck,
National Soybean Processors Association.
Larry Kleingartner,
National Sunflower Association.
Joseph Halow,
National American Export Grain Association.

Senator STEVENS. Thank you very much. I would prefer to just go through the Senators' statements, and then we will see if any members of the committee have questions for any one of the three of you. Is that agreeable? Senator Jepsen.

STATEMENT OF HON. ROGER JEPSEN, U.S. SENATOR FROM IOWA

Senator JEPSEN. Thank you, Mr. Chairman.

At the onset, let me say that I support a strong merchant marine fleet. In my capacity serving on the Armed Services Committee, I think I have the reputation of supporting an adequate defense both on a current basis and on a readiness basis.

I appreciate the opportunity to testify today before the Merchant Marine Subcommittee of the Commerce Committee because, quite frankly, Mr. Chairman, I am concerned about the swiftness with which legislation to expand cargo preference is moving through Congress. Our farmers can rightly ask what is the Senate doing to insure that agricultural bulk commodities meant for commercial export will not be subject to cargo preference.

Mr. Chairman, the proposal currently before the Congress expands cargo preference and directs that a minimum of 5 percent of all import and export bulk goods must be transported on U.S.-flag ships. This percentage would increase 1 percentage point a year until it reached 20 percent. Now, a recent study that was conducted by the Iowa Farm Bureau economists indicates that cargo preference requirements have the potential to reduce U.S. farm income by $6 billion.

Shipping costs will increase $40 to $80 per ton, and this means that nationwide our farmers will spend anywhere from an extra $1.01 to an extra $2.03 per bushel of corn, and $1.09 to $2.18 per bushel of soybeans to ship on U.S.-flag ships. In total tonnage, using 1982 and 1983 production figures, the 5-percent cargo preference directive would cause 6 million metric tons of grain and soybeans to be shipped at higher costs. When the percentage increased to 20 percent, then nearly 24 million metric tons would be affected.

Clearly, we cannot allow this to happen. Cargo preference places an unfair and unjust burden on the American farmer. It would seem that the American farmer is expected to serve as a scapegoat for a variety of problems unrelated to agriculture. If the American farmer is not being subjected to embargoes, he is expected to absorb everincreasing export costs for the well-being of another industry.

Does this Nation want our food to be sold abroad or not? I think that is the question. Do we want our farmers to receive a fair price for their products, or do we want production costs to continue to exceed market value?

Mr. Chairman, the purpose of cargo preference is to help maintain a strong merchant marine fleet that will be able to meet the needs of our national defense in times of international crisis, and I commend and support this goal 100 percent, but surely, the way to accomplish it is not to decimate our farmers in the process. We are just now beginning to recover from the effects of an embargo and depressed markets, and we still have a long way to go.

Why are we now considering starting another cycle of loss and frustration for our agricultural people and our farmers and food producers in this Nation? The effect cargo preference has on farmers can be expanded to include the U.S. economy. For instance, each $1 billion in farm exports employes 30,000 Americans. Farm exports created $41 billion in additional business for the nonfarm community in fiscal year 1982, and last year alone cargo preference subsidies contributed at least $150 million to the widening Federal deficit.

Regretfully, Mr. Chairman, U.S. builders of ships have very simply priced themselves out of the market. Iowa farmer Merlyn Groot, representing the American Soybean Association before the House Merchant Marine Subcommittee, made this testimony: A 35,000-ton dry bulk vessel built in U.S. shipyards costs an average of $66 million in 1982. That same ship built overseas costs $23 million.

Now, rather than risk further unemployment and larger deficits, I suggest we approach the problem from a different perspective. Perhaps we Could offer incentives to shipbuilders to reduce vessel costs, or perhaps we could increase tax benefits for U.S. registry. I am not saying this is the way to go, only that these ideas should be explored and are possible alternatives.

I along with Senator Kassebaum have introduced a resolution expressing the sense of the Congress that further expansion of cargo preference requirements is not in the interest of the United States, and should not be imposed. The resolution we offer is, of course, nonbinding, it is an expression of the Congress, not a mandate.

In conclusion, Mr. Chairman it is simply unjust to unfairly burden the American farmer, who depends on exports for his livelihood. This legislation would hit the farmer hard. And as I have noted, expansion of cargo preference requirements, as is being recommended, will cut clear across the board in the nonfarm areas as well as in production agriculture. It should be stressed that farmers have been adversely affected for the past 3 years beginning with the ill-advised grain embargo, and it seems to be bad policy to start the process all over again, just when the farmers are beginning to get back on their feet.

Expanded cargo preference would have the likely effect of making our farm products too expensive to be competitive in the world market. We simply cannot allow this to happen.

As I began, Mr. Chairman, I will end. I support a strong merchant marine fleet, but please, let it not be at the expense of our agricultural community.

I thank you.

Senator STEVENS. Thank you, Senator Jepsen.

Senator Nickles, would you like to go ahead?

STATEMENT OF HON. DON NICKLES, U.S. SENATOR FROM OKLAHOMA

Senator NICKLES. Thank you, Mr. Chairman.

I might ask that my full statement be printed in the record and I will summarize to conserve time.

Senator STEVENS. Your statement will be printed in the record.

Senator NICKLES. Thank you.

I would echo the comments of my colleagues, Senator Boschwitz and Senator Jepsen. I think they make a very good point that although the idea behind expanded cargo preference is commendable it could have a disastrous effect on agriculture. I believe it would have a very negative impact on my State of Oklahoma, which exports about 80 percent of its wheat crop.

The goal of providing our country with a strong merchant marine able to meet our defense needs in times of national emergency is certainly a worthy and commendable goal. I am very concerned, however, that an expanded cargo preference program may serve to harm rather than benefit the maritime industry by placing economic hardships on the agricultural industry and other exporting industries which supply much of the cargo for the maritime industry.

The cost of shipping American is astronomical. U.S. dry bulk ships consistently charge anywhere from 100 to 350 percent more than foreign flag ships to transport the same cargo. Much of the differential is a result of different wage scales and Government subsidies. I believe, Mr. Chairman, that as our Government increases subsidies to any industry, we encourage it to become more inefficient, and therefore less competitive.

When the domestic maritime industry declines, our exports have a tendency to decline. The cost of maritime subsidies to the taxpayers is substantial. For 1982, the operating differential subsidy was $401 million. The construction subsidy was $349.1 million. That is an enormous expense, particularly at this time of unbelievably high deficits.

Mr. Chairman, I also have some very deep concerns regarding the impact that extending the domestic cargo preference would have on international trade. Our balance of trade is projected to hit a record deficit of $65 to $70 billion for 1983. Agricultural exports alone have dropped from a peak of almost $44 billion in 1981 to a projected $35 billion in 1983. At a time when our foreign agricultural competitors have displaced many of our markets—leaving a surplus of almost 1.5 billion bushels of wheat alone in American bins despite a multibillion dollar Government effort to reduce production—the last thing this country can afford to do is increase the price tag on exported farm products.

Mr. Chairman, in 1982 it cost an average of $52 more per metric ton to ship commodities on American-flag ships than on foreign ships. For wheat, that is $1.42 more per bushel. As I stated earlier, about 80 percent of the wheat in Oklahoma is exported. Oklahoma farmers now are receiving an average of $3.40 per bushel so a $1.42 cost increase represents about 25 percent of the price they receive producing their crop.

In Oklahoma, we unfortunately had the lowest net farm income in the Nation in 1982: $14 apiece. When I see that in 1982 unlicensed seamen were earning an average of $45,000 a year, I am concerned about our farmers, who would lose income under this proposal. With the 5-percent preference, an average farmer would lose something like $468 per year. They only had $14 net income last year. They do not have any money to lose. If the preference were increased to 20 percent, an average farmer, based on his exports, could lose up to $1,874. This tremendous cost would be borne by agriculture, which can ill afford more costs.

Certainly, I want more jobs, but I am afraid the net effect of the bill might be an increase in jobs in the maritime industry, but a decrease in jobs in all of the industries, agriculture, and others, that depend on exports.

I would hope that this committee would keep in mind the thoughts that Senators have raised today as it wrestles with this difficult question. I hope we can achieve an increase in economic activity in the maritime industry, but not through an expanded cargo preference. Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF HON. DON NICKLES, U.S. SENATOR FROM OKLAHOMA

Mr. Chairman and Members of the Committee: I would like to thank you my colleagues on the Senate Merchant Marine subcommittee for allowing me to testify today regarding a proposal which would extend cargo preference requirements to private bulk commodities at a rate of 5 percent the first year, increasing by 1 percent per year to a minimum of 20 percent. This is a subject which would have a substantial negative impact on my state of Oklahoma, and one about which I feel strongly.

The goal of providing our country with a strong merchant marine able to meet our defense needs in time of national emergency is certainly a worthy one. I am concerned, however, that an expanded cargo preference program may serve to harm rather than help the maritime industry by placing economic hardships on the agricultural industry which supplies much of its cargo.

As my colleague from Minnesota has pointed out, there is no documented reason to believe that requiring an additional cargo preference would assist the maritime industry. Since enactment of Public Law 664 in 1954, sixteen Federal agencies have administered over 30 non-military preference programs. The Agricultural Department alone has paid $1.6 billion in subsidies for carriage of government-impelled commodities.

Yet, as of March 1983, the U.S. dry bulk fleet consisted of only 26 vessels, eight of which were over 30 years old. According to the U.S. Maritime Administration, approximately 3.7 million deadweight tons of capacity is presently available for U.S. foreign bulk trade. But fulfilling a 5-percent cargo preference would require 4.4 million tons—700,000 more than are available. Further, a 20 percent cargo preference would require 17.7 million tons deadweight capacity, or 14 million tons more than currently available!

The cost of "shipping American" is astronomical. U.S. dry bulk ships charge from 100 percent to as much as 350 percent more than foreign flag ships to transport cargo. Much of the differential is the direct result of generous wage scales. The average annual compensation for an unlicensed seaman in 1982 was $45,048.

Mr. Chairman, I have deep concerns regarding the impact that extending domestic cargo preference would have on our international trade position. Our balance of trade is projected to hit a record deficit of $65 to $70 billion for 1983. Agricultural exports alone have dropped from a peak of almost $44 billion in 1981 to a projected $35 billion in 1983. At a time when our foreign ag competitors have displaced many U.S. markets—leaving a surplus 1.5 billion bushels of wheat alone in American bins despite a multi-billion dollar government effort to reduce production—the last thing this country can afford to do is increase the price tag on our farm products for export.

How would a 5 percent bulk cargo preference requirement affect the average Oklahoma farmer? A 20 percent preference?

On average, farmers in my state raise about 250 acres of wheat per year. Oklahoma exports roughly 80 percent of its high-quality hard red winter wheat crop. To the average farmer, this means 200 acres of his operation will go for export. Averaging a yield of 33 bushels per acre, he would export 6,600 bushels of wheat annually.

What would be his loss under the first year of the proposed expansion? At 5 percent, 330 bushels. Mr. Chairman, in 1982 it cost an average of $52 more per metric ton to ship commodities on an American flagship than on a foreign ship. Therefore, since there are 36.7 bushels of wheat per metric ton, cargo preference would cost the average farmer in my state of Oklahoma $1.42 per bushel. At 5 percent, that translates into a loss of $468.60 in the first year alone. At 20 percent, the program would cost him $1,874.40. Soybean growers in my state would experience a similar loss.

Mr. Chairman, the farmers in Oklahoma are among the most efficient food producers in the world. Yet sluggish market demand yielded them an average net income last year of only $14 apiece. I cannot justify asking them to bear the cost of subsidizing a maritime industry that has priced iteslf out of competitiveness.

I urge the Committee to reject the proposed expansion of cargo preference.

Thank you.

Senator STEVENS. Thank you very much.

Do the gentlemen have questions for the Senators who testified?

Senator TRIBLE. Yes, sir.

Senator STEVENS. Senator Trible.

Senator TRIBLE. We have lost Senator Jepsen. I had a question for Senator Jepsen.

Gentlemen, as I understand your testimony, you support a strong merchant marine, but you are troubled that you perceive that there is a disproportionate cost being imposed on agriculture by these bills. Is that a fair statement?

Senator BOSCHWITZ. Yes.

Senator NICKLES. Yes.

Senator TRIBLE. If this is not the approach that we should undertake to strengthen America's merchant marine, what would you propose as an alternative?

Senator NICKLES. Senator Trible, I might touch on this. I do not have the answer, and I do not know if any one person does, but we have to be competitive, and we have to be competitive in many areas. In 1982 it cost $52 more per metric ton to ship on American flag ships than it did on foreign ships. Now, one would really need to break down that cost and find out why it costs that much more to ship on American ships than it does foreign ships.

Certainly labor is one reason. Our labor costs have been as much as three times as high as other countries. I personally believe that Government subsidies have caused our merchant marine to be inefficient, and therefore, have made us less competitive. We must be competitive. We need to ship more to have a viable merchant marine. We need to increase exports, and take whatever action we can in working with this committee and other committees in Congress to increase our competitiveness, We need to ship more and not just try to carve out a little higher percentage on less and less cargo

Senator BOSCHWITZ. Senator, let me answer that as well. We came to testify about the damage that the bills would do to the agriculture sector of the economy, damage that would far exceed the benefits that might accrue to the shipping aspects of our economy.

I am not sure exactly what the answer to your question is. However, we have very many ships that are under flags of convenience in other countries. The reason normally cited for having a merchant marine that is viable is to assure shipping support in the event of war. I am very familiar with the fact that during the Vietnamese conflict, we had difficulty in obtaining ships to go into that area.

However it is not uncommon for nations—I think that a number of European nations do it—that when you have ships owned by your nationals under flags of convenience, that they be utilized in such instances, and I think that that is about as good an answer as I have. I do not claim to have the answer other than that. I only do make the statement that indeed you would be doing great harm to the agricultural sector.

Senator TRIBLE. The question that I asked is a question that we have all been asking for years, and no one knows really an answer to the question of how we craft a program that is fair and one that will provide the incentives that are so necessary to revitalize America's merchant marine.

Let me ask just two quick questions, and then we will move on. Senator Boschwitz, you and Senator Jepsen both cited the costs that might flow from a cargo scheme. In your testimony and Senator Jepsen's, you cited, as I recall, that statistics suggesting a $6 billion decline in export shipping costs, increasing from $40 to $80. What is the source of those statistics?

Senator BOSCHWITZ. I believe we got those statistics, Senator, from the Department of Agriculture, the Department of Commerce, and the Department of Transportation, MARAD.

Senator TRIBLE. You surely did not get those from MARAD. That is the only study that I am familiar with. I would like to ask for the record if you would establish the source of that information.

Senator BOSCHWITZ. Sure.

Senator TRIBLE. I would just like to add that I would wager that those facts are based on some of the earlier cargo equity schemes, and I would simply point out for the record that the bill now before this committee would set aside cargoes only if the maritime industry achieves substantial savings, and those savings are a precondition to the set-aside. It is not taking a leap of faith, but we are requiring the maritime industry to make those savings as a precondition to the set-aside.

Moreover, the bill provides for a tax credit that would further offset any differential that might arguably still exist between carrying products on American vessels and on foreign vessels. There is nothing that troubles us more than insuring that we have on the one hand a viable merchant marine and on the other a competitive economy, and so these cost questions are central to what we are doing. If you would simply clarify for the record the source of those and whether they are based on the current bill before us, that would be helpful.

Senator BOSCHWITZ. I, at least, Senator, have some skepticism about how MARAD would interpret what you have just said, and I also have some skepticism about the cost of those tax credits that you referred to that I am aware of, which would be absolutely enormous. As you may know, the MARAD is only required to use U.S.-flag rates if they are reasonable in comparison to the world rates.

Back in 1982, on January 14, once again, the example I gave, the Arab Republic of Egypt came in with a bid and Cargill Co.'s share of the sale would have cost $104 a ton to ship. The Bunge Co.'s share was $82 a ton. The world rate was $22 a ton on wheat at that time. The MARAD found the $82 to be reasonable, the $104 to be reasonable, even though the world rate was $22, so that, as I say, we approach with some skepticism these requirements.

Senator **Trible**. Well, what troubles me here is that we are talking about apples and oranges. First of all, I think that——

Senator **Stevens**. Gentlemen, I have to stop you, if you really would permit me. We have only had 3 witnesses out of 20 that we have to do this afternoon. I do think that the dialog between Senators can go on. If you have some pertinent questions that you want to ask for information, I would like to ask you to do that. But, Senator, we must get this hearing going.

Senator Inouye has a question.

Senator **Inouye**. Just an observation, Mr. Chairman. The statistics submitted by my colleagues are rather awesome, but yet I have before me part of the text of a statement which was made by Representative Lindy Boggs of Louisiana, a prime sponsor of a measure very similar to yours, and in her speech of August 10, she said in New York that the impact on commodity prices would be minimal, and she said:

> Recent examination of this question by the Center for Naval Analysis in a study entitled Defense and Economic Aspects of H.R. 1242, prepared for the Navy Department, shows that percentage increase of the landed price of commodities at a 20 percent reservation level would be as follows.

Well, for crude oil, an increase of 0.54 percent: less than 1 percent. For grain, 1.04 percent: 1 percent. Lumber, 1.34 percent increase. Coal, 2.4 percent increase. Fertilizer, 5.25 percent increase. Obviously, there is something wrong in the analysis or the evaluation. I would hope that MARAD could come forth with some idea as to how and what sort of methodology was used in arriving at these statistics.

If this committee is to act prudently upon the measure introduced by Mr. Trible, we would have to know what the impact would be. If the impact is going to be just 1 percent on grain, I am certain the Senator from Oklahoma is not going to be complaining as loudly as he has.

Senator **Nickles**. I would think that there is probably a lot of difference between the figure that I quoted of $1.42 per bushel and 1 percent, which would probably equal about 3 or 4 cents. I would echo your concern, and hope we can get some reliable figures.

Thank you, Mr. Chairman.

Senator **Trible**. Senator, if I could just add to that, you all are very able spokesmen for the agriculture community, and I share those interests. Virginia is not only a maritime State, but we also have important agricultural interests as well, and what we are striving to do is to try to determine as precisely as possible what the true cost would be, and it is not the purpose of this Senator or any Senator to put the burden unfairly on any sector of the economy. I think your testimony today has raised the issues that we have to address, and I thank you for being here.

Senator **Boschwitz**. If we thought the differences were as slight as the eminent Senator, my friend from Hawaii, states, we would not be here. Somewhere in between our respective figures, I suppose, lies the truth, and we will try to find it together.

Senator **Stevens**. Thank you very much.

We now have Congresswoman Virginia Smith and Congresswoman Lindy Boggs.

I have asked Senator Gorton to chair. I have just been called to present a couple of amendments over at the Appropriations Committee, but I will be back. Thank you very much.

STATEMENT OF HON. LINDY BOGGS, U.S. REPRESENTATIVE FROM LOUISIANA

Mrs. **Boggs**. Thank you very much.

I would like to express my appreciation to all of you for holding these hearings on proposals to strengthen our American shipbuilding and shipping industries because the future of our merchant marine is bleak, yet these hearings can serve as a new beginning for efforts to rebuild this valuable asset.

Over the past several years, we have witnessed a rapid decline in commercial shipbuilding as well as new threats to the viability of our merchant marine. Our operators and shipbuilders are hard pressed to compete with other countries where support for shipbuilding and shipping are among the highest priorities of their national policies.

Rather than provide the special financial support or cargo policies needed to maintain our merchant marine, we seem to have gone in the opposite direction. While our Government seems to be uncertain about the necessity of a strong commitment to American shipping and shipbuilding, our competitors in the world have not made the same mistakes. For example, the Soviets have added more tonnage to their merchant marine in 1982 than any other nation. The ships they build and sail throughout the world are among the most useful military support ships built.

As another example, the Sanko Steamship Co. of Tokyo has recently placed contracts for the construction of one of the world's largest fleets of bulk carriers. The bulk trades, grain, timber, steel, coal, ore, et cetera, are projected to be one of the real growth areas in world trade over the next decade, and the Japanese recognize it.

From our competitors we should learn an important lesson. We must build and maintain American ships to serve in world trade and as naval auxiliaries. We must revitalize our shipbuilding mobilization base, and rebuild our merchant marine. I believe it is time to enact a cargo policy that will support this objective.

I have been joined by 147 Members of the House of Representatives in cosponsoring the Competitive Shipping and Shipbuilding Act, H.R. 1242. This legislation is similar to one of the bills before you today, S. 1624, and because of this similarity, I would not go into the details of H.R. 1242. The supporters of H.R. 1242 are aware of the impact which a large increase in transportation costs would have on U.S. exports and imports, and consequently our domestic economy, and for that reason, the Competitive Shipping and Shipbuilding Act was designed to prevent any unreasonable increase in transportation costs.

Before this legislation can take effect, as Senator Trible has said, shipbuilders, operators, and labor must reduce their costs by a minimum of 15 percent. Furthermore, the legislation sets forth a mechanism for establishment of fair and reasonable cost-based guidelines rates for the Secretary of Transportation in consultation with an advisory group which includes both exporters and importers.

The competitive market for American-flag shipping services resulting from this bill would in no way resemble current market conditions. Therefore, existing rate differentials between American-flag and foreign-flag ships cannot be used to estimate the costs of this bill, which would in fact be small. It cannot be judged by the current differentials under the current Public Law 480 shipments, for example.

The Public Law 480 market can not be used as representative of market conditions that would prevail under a commercial cargo reservation system. Public Law 480 provides an extremely small and static market for American-flag ships. In 1981, the entire Public Law 480 program shipped only 5.7 million tons of cargo. Less than 3 million tons were shipped on American-flag vessels.

If H.R. 1242 were enacted today, it would provide 36 million tons of cargo for U.S. vessels in the first year of operation. This would represent an increase of 1,100 percent over the size of the Public Law 480 program in the first year alone. If the volume of trade increases as projected by the Department of Transportation, by the year 1998, the bill will result in a volume of trade on American-flag vessels in excess of 180 million long tons per year, over 60 times the volume of the current Public Law 480 program.

The situation that exists in the Public Law 480 market demonstrates the need for a commercial bulk cargo reservation program. The amount of cargo provided by Public Law 480 is too small to encourage investment on the scale needed to make the American-flag fleet a competitive force in world shipping markets.

So, the most immediate impact of this legislation would be to increase the efficiency of the existing merchant marine through full employment of resources. Operators will be faced with a large, predictable market, allowing them to plan effectively and institute cost-saving measures such as long-term chartering and arranging for back haul cargoes.

Furthermore, operators will be prompted to devise more creative uses for existing ships, for example, employing tankers in the commercial grain trade. The ships constructed as a result of this bill will be modern, technologically advanced vessels able to operate at maximum efficiencies, thus lowering the freight rates. And as Senator Inouye has noted, a recent examination by the Center for Naval Analysis on the impact of this legislation indicates the cost estimate increases that would result from its enactment.

And, Mr. Chairman, I would like permission if I may to insert into the record [1] at the end of this testimony the whole Center for Naval Analysis study for the committee's use.

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[1] The study is for official use only and has been retained in the committee files.

Senator GORTON [presiding]. Without objection, it will be included.

Mrs. BOGGS. I think that you will find that the statistics that Senator Inouye has quoted will indeed be supported by the study. Opponents of a cargo reservation policy have contended that national defense interests will not be served by increased American flag bulk capacity. In truth, the national security benefits provided by this legislation are among the most compelling reasons for supporting it.

The CNA study, prepared at the request of the Navy Department, concluded that a significant number of the estimated 329 ships constructed as a result of the cargo reservation policy would be of a very high potential utility to the Navy. The study suggests that enactment of the bill could lead to the construction of 214 handy-sized dry bulk ships with their own loading gear.

This type of ship is most desirable as a naval auxiliary. The CNA study also suggests that the new ships would increase by 40 percent the number of American-flag merchant ships and would increase the total tonnage in the fleet by 60 percent. Finally, it states that, and I quote:

> If the government does not act, the U.S. merchant marine will probably continue to decline. If H.R. 1242 were enacted, it would add substantially to the size of the U.S. merchant fleet and increase the fleet's military utility. H.R. 1242 would help to preserve the industrial base for wartime expansion of U.S. shipbuilding.

Mr. Chairman, a thorough examination of the report of the Center for Naval Analysis is essential to the evaluation of this issue. I would like to suggest that the impact of this legislation on defense policy and planning be pursued with the Secretary of the Navy.

Also pursuing the national security aspects, the Federal Emergency Management Agency has established minimum import goals for strategic commodities necessary for our economy and our national defense efforts. In a wartime situation, it has been determined that 84 dry bulk vessels averaging 22,500 deadweight tons would be required to meet those goals. Our current fleet numbers fewer than 20 such vessels, and carries less than 2 percent of our trade.

In contrast, the ships of flags of convenience and Communist-bloc nations carry 38 percent of all essential imports for the American economy.

Finally, it is important to remember that the utilization of American-flag vessels creates an additional export of the United States. Shipping service is as much of an export of the United States as the sale abroad of an agricultural or manufactured item. U.S. jobs are increased, and a positive return is made on our international balance of payments.

I would conclude by urging favorable consideration of the Competitive Shipping and Shipbuilding Act. Cargo reservation is a realistic and workable solution to problems of employment, national security and trade, and is consistent with the prevailing practices in world trade. It is relatively simple to implement, and once implemented, it can help to promote competition. The alternative is a continuation of the decline of commercial ship construction and our bulk cargo fleet.

The effects of such a decline would be detrimental to both our national defense and our industrial economy.

Thank you very much.

Senator Gorton. Thank you, Mrs. Boggs.

Mrs. Smith.

STATEMENT OF HON. VIRGINIA SMITH, U.S. REPRESENTATIVE FROM NEBRASKA

Mrs. Smith. Senator Gorton, I thank you, Senator Stevens, your chairman, your ranking minority member, Senator Inouye, and all of you for holding this hearing, and for giving me the opportunity of testifying. I want to add that while I view this issue very differently from my dear friend, Lindy Boggs, we are going to continue to be good friends in the future. We work together very, very happily on the House Appropriations Committee.

I will restrict my remarks today to S. 1616 and S. 1624, both of which I strongly oppose. Let me open by stating how much I sympathize with and understand the concerns of those who are struggling to help the U.S. merchant marine.

The sad state of our American-flag lines should be an issue of concern. Unfortunately, the story of their decline is nothing new. Since World War II, the number of U.S.-flag ships has dwindled steadily. But even with the tremendous infusion of cash, credit, and guaranteed cargoes over the years, the merchant marine has not been revitalized.

Now, with the recognition that these programs have not worked, and with their subsequent deletion from the budget, maritime supporters are naturally looking for other support. This search has led them to embrace the expansion of cargo preference, the practice whereby commercial shippers are guaranteed business by legislative mandate without regard to costs and without regard to economics.

I and many others not only consider this approach ill advised, but downright disastrous. It is protectionist. It is inflationary. It is bad for exports. It is bad for jobs. It is bad for farmers. It is bad for consumers. Ironically, cargo preference may be one of the major causes of our rundown fleet.

Government cargoes have become the only cargoes carried by most flag lines. Eighty-three percent of all U.S. exports moving on U.S.-flag shipments are Government cargoes that were required to move on American ships. Thus, there is not the incentive to build new ships or even to make the present vessels more efficient. Operating on a cost-plus basis, U.S. bulk ships carrying food for peace, Public Law 480 grain, charge on an average $53 a ton more than their foreign counterparts, many of which are American controlled.

These are the figures, Senator Gorton, from actual void charter rates compiled by USDA. The USDA and ultimately the taxpayer must pay these costs without recourse to question what kind of a deal they are getting. I commend you, Senator Trible and Mr. Stevens, for considering several provisions in S. 1624 that are not included in the House counterpart, H.R. 1242.

Specifically, I refer to the amendment offered by Chairman Stevens to allow some flexibility to the rules for construction of U.S.

ships. With U.S. construction costing three times that of other countries, and with operation costing in excess of $1 million per ship per year more than the cost of other countries, some changes must be made to introduce an element of efficiency and competition.

Also, I point to title III of H.R. 1624 which gives a 10-percent tax credit to shippers for the extra cost incurred to increased cargo preference requirements. This provision if nothing else at least endorses the fact that additional costs will result.

Using history as a guide, increasing cargo preference requirements to 20 percent of all imports and exports would further erode our competitive standing in the international grain trade. Increased ocean transportation costs would prohibit demand, prolong the farm recession, and eliminate jobs, not create them.

This year our agricultural export volume will fall for the third straight year in a row. More importantly, we are losing our market share for many commodities, which means that other countries are increasing their exports while our exports are decreasing.

This situation makes it easy to see that our commodities do not enjoy a price advantage that would enable exporters to pass through increased costs.

To turn now to S. 1616, the Government Impelled Cargo Act of 1983, which greatly expands the scope of current cargo preference laws. This bill wipes out every major piece of cargo preference legislation on the books.

The agricultural industry relies on USDA export programs as our only tool to fight unfair export practices in other countries, an overvalued dollar and a poor demand situation.

The USDA programs are not much, gentlemen, compared to what other countries do to get rid of agricultural products, but they do help.

In June, when I testified before the House Merchant Marine Committee, I stated that applying cargo preference to such programs as the blended credit export program would totally wipe it out. In fact, a recent memorandum from the Department of Transportation concluded that the application of cargo preference to the blended credit program would result in its abandonment and therefore would not help U.S.-flag ships nor agriculture.

I have a great deal more evidence, facts and figures to support my arguments, but in the interest of preserving the subcommittee's time for the benefit of other witnesses—and I heard that there are 20 more—I will defer from presenting them all today.

In closing, may I say I hope the subcommittee will continue in its search for a maritime policy that is coherent and effective, but I urge you on behalf of farmers, of coal miners, of consumers and others not to include expanded cargo preference as part of that policy.

Thank you very much.

Senator GORTON. Thank you very much, Mrs. Smith.

Senator Trible.

Senator TRIBLE. Thank you, Mr. Chairman.

First of all let me say what a great pleasure it is to see two friends and former colleagues here, and I think the world of both of these ladies, Mr. Chairman. And although I like Mrs. Boggs' testimony a lot more than Virginia Smith's, Virginia, let me say that we would welcome you over here full time.

Mrs. SMITH. Thank you very much. This would be a very nice place to be full time.

Senator TRIBLE. Now, let me just make three quick points, if I might.

Mrs. BOGGS. After the passage of your bill?

Senator TRIBLE. Thank you, Lindy. You've always been ahead of me.

Three quick points, Virginia.

You and your other colleagues have underscored your concern about the potential cost of any set-aside program and the adverse impact that it could well have on the agricultural community. And that is obviously a matter of concern to all of us. The cost of any such program ought to be fairly proportioned.

I just want to point out one thing: That is that much of what we have heard today has used the Public Law 480 program as a point of reference, and really, I think that using Public Law 480 as the point of reference in talking about the results of this legislation is kind of like comparing apples and oranges. Public Law 480 really is the spot market for shipping, much higher than the rates if runs are made more frequently and more predictably.

The Public Law 480 program is a low volume kind of thing; therefore, profits for each one must be very high. By the year 1998, it is estimated that legislation like S. 1624 would generate annually 60 times the annual amount of Public Law 480 cargo. Since volume will be high in constant, in predictable, and since there will be no need to recover fixed costs in just a few voyages each year, I believe the rates would be much lower. So I think that is a point that we need to consider as we move ahead. And I am just not convinced that Public Law 480 can be accurately used as a baseline for our considerations?

To that end, point two. Mrs. Boggs has made reference to the naval—the study of the Center for Naval Analysis, and that suggests that the cost differentials will be much less than some of the figures that have earlier been advanced.

And I would simply point out for the sake of the record that this is based on the Boggs bill which does not have a tax differential, and as I recall, Mrs. Boggs, it also provides for a 15-percent savings as the precondition, whereas S. 1624 requires a 20-percent savings.

So the point of all that is to say that the cost differential would be even less under the Senate bill than under the Boggs bill as presented by the gentlelady from Louisiana.

One final point just for the record. The Federal Government has rightly acknowledged the important role of agriculture. It has shaped our character as a nation and is essential to our economic strength. And because of that we have a comprehensive Federal program supporting the farm community. And I believe a similar policy for maritime industry with cargo reservation as its foundation is also appropriate, because the maritime industry is also essential to America's economic well-being and security in the world.

We pay $275,000 per hour to buy agricultural surpluses. USDA assistance and direct subsidies will be about $25 billion this year. Maritime subsidies over 47 years have been less than $10 billion.

So, again, I think as we consider this very difficult task and perhaps the impossible job of crafting a maritime policy, that we keep all this in perspective, and I advance that to that end.

Let me say one further word, Mr. Chairman. Lindy Boggs has been a great leader in the effort to revitalize America's merchant marines. She and I served as the cochairmen of the Maritime Coalition in the House, and we have advanced a number of ideas. We have worked together.

And, Mrs. Boggs, I simply want to express my admiration for your leadership, I want to applaud your efforts, and I want to encourage you to keep up the good fight.

Mrs. **BOGGS**. Thank you very much, Senator. And I really decried your departure from the House, but I was very happy to know that I would have such an able colleague in the Senate.

When we are speaking of the Center for Naval Analysis, Senator, I have asked that a summary of it be made a part of the record. And also, Mr. Chairman, since there was the concern expressed by Senator Boschwitz about the effects of this legislation on the Great Lakes area, I would like to submit a paper that points out the benefits to the maritime industry in that area of a cargo reservation policy. The paper, prepared by the Great Lakes task force, notes that "enactment of the Competitive Shipping and Shipbuilding Act would be of significant benefit to Great Lakes shipyards, carriers, shoreside support industries, and the regional maritime labor force."

Senator **STEVENS**. Thank you very much. It will be.

Mrs. **SMITH**. And, Mr. Chairman, may I make just one comment in response to what my good friend, Senator Trible, said, and I am so glad that Senator Trible is right where he is, although we miss him very much.

I want a strong merchant marine fleet just as you do, but the cost should be borne equitably by the citizens of America. It should not be borne by the farmers of America.

We send abroad 70 percent of all exports in this country. Three out of every four acres of wheat is exported. And if we are going to put this burden onto the farmers, they cannot stand it, and we're going to see agriculture go down the drain.

I plead with you not to pass legislation that puts the burden, the major part of the burden on one small, already suffering segment of this economy.

Thank you.

Senator **STEVENS**. Thank you very much.

[The article referred to follows:]

THE COMPETITIVE SHIPPING AND SHIPBUILDING ACT OF 1983

Its Benefits to the Great Lakes Maritime Industry

On February 3, 1983, Congresswoman Lindy Boggs (D-La.) introduced H.R. 1242, the Competitive Shipping and Shipbuilding Act of 1983. Under the provisions of this legislation, five percent of all U.S. import and export bulk cargo would be carried aboard U.S.-flag vessels. This percentage would increase incrementally at the rate of one percent per year until the year 2000, when 20 percent of all American import and export bulk cargo would be carried aboard U.S.-flag vessels.

This legislation squarely addresses serious weakeness in our nation's transportation infrastructure, namely the declining U.S.-flag merchant fleet and our shrinking shipbuilding mobilization base. The goals embodied in H.R. 1242 are modest in scope; however, the national benefits to be derived are immense. Dormant shipyard and associated support industries, vital to our national defense, would be renewed, adding 19,000 individuals to their labor forces. U.S.-flag carriers would experience an expanded market, creating a demand for 9,000 additional seafarers and 268 new U.S.-flag vessels. This economic upturn would have a ripple effect throughout the nation, creating 84,000 additional jobs.

The Great Lakes region would be a prime beneficiary of the legislation. The future of the Great Lakes region is dependent upon the evolution of a healthy marine transportation sector—encompassing its ports, carriers, shipyards, and labor force—in order to satisfy the needs of its vast agricultural and industrial sectors. Clearly, the enactment of this legislation would provide a foundation upon which to build an economically viable Great Lakes maritime industry.

One of the most critical problems facing the Great Lakes maritime industry is the absence of adequate U.S.-flag vessel service in the overseas import and export trades. The Competitive Shipping and Shipbuilding Act of 1983 would resolve the problem by reserving a portion of our nation's bulk commerce for U.S.-flag carriers, thereby providing the market incentive necessary to foster a U.S.-flag Great Lakes/overseas carrier fleet. The steel mills and shipyards located on the Lakes would be reactivated, supplying the U.S.-flag carrier industry with state-of-the-art Seaway size vessels. In essence, H.R. 1242 provides the vehicle necessary to build U.S.-flag Great Lakes fleet to carry the bounty of the midcontinent region to the markets of the world.

An equally important benefit resulting from the enactment of the Competitive Shipping and Shipbuilding Act would be a substantial increase in the participation of U.S.-flag dry bulk carriers in the import-export trades with Canada, and the resultant work which would accrue to Great Lakes shipyards in repairing, reconstructing, and building vessels. The U.S.-flag fleet of dry bulk vessels currently transports an alarmingly small amount of Lakewise and Seaway commerce between the U.S. and Canada. In 1980, only 4.8 percent of the dry bulk trade between the U.S. and Canada was carried on American vessels; today that percentage is even lower. The Competitive Shipping and Shipbuilding Act will substantially increase the U.S.-flag vessel participation in both the Lakewise and Seaway import/export trade with Canada. The table below graphically illustrates the significant benefits generated to the U.S.-flag Great Lakes dry bulk carrier industry measured in terms of additional tonnage and trips as a result of enactment of H.R. 1242.

	Additional tonnage		Additional trips	
	5 percent U.S.-flag carriage	20 percent U.S.-flag carriage	5 percent U.S.-flag carriage	20 percent U.S.-flag carriage
Lakewise:				
Export	844,000	4,062,800	42	203
Import	45,400	425,400	2	21
Seaway:				
Export	391,200	1,651,200	19	83
Import	276,000	1,176,000	14	59
Total	1,556,600	7,315,400	77	366

Passage of the legislation would generate an additional 1.5 million tons of cargo for American dry bulk vessels in the U.S./Canada trade during the year following enactment. This additional cargo equates to roughly 77 annual vessel sailings. By the year 2000, when the U.S.-flag participation rate would increase to 20 percent, American carriers would transport 7.3 million tons more than they did in 1980, which is approximately 366 annual sailings. The background data utilized to compute these impacts are displayed in the two tables appended hereto.

It is clear that enactment of the Competitive Shipping and Shipbuilding Act would be of significant benefit to Great Lakes shipyards, carriers, shoreside support industries, and the regional maritime labor force. Nevertheless, certain interests have stated that the Great Lakes should be exempted from the U.S.-flag carriage provisions of this legislation. It must be recognized that H.R. 1242 has been carefully crafted to accommodate the unique circumstances of the Great Lakes maritime industry. If this legislation were to inadvertently place Great Lakes shippers in the position of diverting their cargo to tidewater ports due to the current low-level of U.S.-flag service, a waiver from compliance with the U.S.-flag carriage requirements would be provided. This waiver provision will alleviate any difficulties which might arise prior to establishment of U.S.-flag overseas carrier service.

Certain interests have even suggested that the Great Lakes should be permanently exempted from the U.S.-flag carriage provisions of the Competitive Shipping and Shipbuilding Act. To do so would serve to literally frustrate every tangible benefit which this legislation would extend to the Great Lakes. A permanent waiver provision would deny U.S.-flag carriers the cargo base necessary to establish Great Lakes service, deny Great Lakes shipyards the construction and repair work which this fleet would require, and deny Great Lakes seafaring and shoreside labor the jobs which would accrue. In short, a permanent waiver provision would hinder the overall development of the Great Lakes marine transportation system.

The enactment of the Competitive Shipping and Shipbuilding Act of 1983 would serve to bolster the fragile economic fabric of the Great Lakes region and the nation as a whole and would create 112,000 jobs for a work-starved labor force. H.R. 1242 present the nation with a rare opportunity to reinforce our economic strength and national defense at no cost to the taxpayer. Such an opportunity should not be lost.

UNITED STATES/CANADA TRADE ADDITIONAL U.S.-FLAG TONNAGE AND TRIPS LAKEWISE

Commodity	1980 tonnage	1980 U.S.-flag tonnage	Percent U.S.-flag carriage	Additional tonnage		Additional trips	
				5 percent U.S.-flag carriage	20 percent U.S.-flag carriage	5 percent U.S.-flag carriage	20 percent U.S.-flag carriage
Exports:							
Coal	14,800,000	200,000	1.3	540,000	2,760,000	27	138
Iron ore	5,600,000	16,000	.3	264,000	1,104,000	13	55
Gypsum, plaster limestone, flux	2,200,000	600,000	27.4	(1)	(1)	0	0
Grains	800,000	0	0	40,000	160,000	2	8
Salt	400,000	41,200	10.3	(1)	38,800	0	2
Total	23,800,000	857,200	3.6	844,000	4,062,800	42	203
Imports:							
Sand	100,000	100,000	100.0	(1)	(1)	0	0
Salt	1,200,000	100,000	8.3	(1)	140,000	0	7
Gravel and crushed stone	900,000	17,100	1.9	27,900	162,900	2	8
Cement	600,000	200,000	33.3	(1)	(1)	0	0
Iron ore	800,000	700,000	87.5	(1)	(1)	0	0
Newsprint	200,000	0	0	10,000	40,000	0	2
Fertilizer	500,000	17,500	3.5	7,500	82,500	0	4
Total	4,300,000	1,134,600	26.4	45,400	425,400	2	21

[1] No increase.

UNITED STATES/CANADA TRADE ADDITIONAL U.S.-FLAG TONNAGE AND TRIPS SEAWAY

Commodity	1980 tonnage	1980 U.S.-flag tonnage	Percent U.S.-flag carriage	Additional tonnage		Additional trips	
				5 percent U.S.-flag carriage	20 percent U.S.-flag carriage	5 percent U.S.-flag carriage	20 percent U.S.-flag carriage
Exports:							
Grain	7,200,000	28,800	0.4	331,200	1,411,200	17	71
Clay	200,000	0	0	10,000	40,000	0	2
Coke	600,000	0	0	30,000	120,000	2	6
Salt	200,000	0	0	10,000	40,000	0	2
Coal	200,000	0	0	10,000	40,000	0	2
Total	8,400,000	28,800	0.3	391,200	1,651,200	19	83
Imports: Iron ore	6,000,000	24,000	0.4	276,000	1,176,000	14	59

Senator **Stevens**. Our next witness is Admiral Shear, the Maritime Administrator of the Department of Transportation.

Admiral, do you have your assistant with you today, or are you alone?

Admiral SHEAR. I'm on my own, Mr. Chairman.

Senator STEVENS. You will do well. Nice to have you here, sir.

STATEMENT OF ADM. HAROLD E. SHEAR, MARITIME ADMINISTRATOR, DEPARTMENT OF TRANSPORTATION

Admiral SHEAR. Thank you, Mr. Chairman.

I have submitted to you a rather extensive statement for the record, and if I may, I would like at this time to read to the chairman and the members of the subcommittee a condensed version of my statement.

Senator STEVENS. Yes, sir. We will print the other in the record.

Admiral SHEAR. Mr. Chairman, members of the committee, I am pleased to appear before the subcommittee to present the views of the administration with respect to S. 188, S. 206, S. 1616, and S. 1624, including the proposed amendment to S. 1624 sponsored by Chairman Stevens.

The administration continues to strongly support our existing cargo preference laws. However, we do not support either an expansion or a contraction of the scope of current law at this time, and for that reason the administration cannot support the proposed legislation before the subcommittee.

First, I would like to discuss the basis for the administration's opposition to S. 1624, the Merchant Marine Revitalization Act of 1983.

This legislation would require that 5 percent of all U.S. bulk imports and exports be carried on U.S.-flag vessels in the calendar year following enactment, with the percentage increasing by 1 percent per year until the level of 20 percent is reached.

S. 1624 would also make provision for a tax credit for shippers to offset a part of any freight rate differential resulting from the cargo reservation requirements of the bill and permit the Secretary of Transportation to enter into an agreement with a shipyard under which the shipyard could deposit income generated under any shipbuilding or ship repair contract in a tax-deferred account to be used later for shipyard improvements.

The administration fully supports the objectives of encouraging a newer, more efficient, and less costly U.S.-flag fleet by lowering both shipbuilding and ship operating costs. However, we cannot support the approach taken by S. 1624 which employs the mechanism of cargo reservation, a measure which distorts the free market to achieve these objectives.

Cargo reservation would increase shipping costs of bulk imports and exports, which would not be offset by the savings proposed by the bill. The annual cost of a 20-percent cargo reservation for bulk cargoes has been estimated to be as much as $3 billion.

A related concern is the severe adverse effect this legislation would have on U.S. agriculture. If historic rate differentials provide an accurate means of forecasting, the additional freight cost of S. 1624 on U.S. bulk agricultural exports could be as high as $1.9 billion.

Further, the proposed legislation would place an additional administrative burden on the Government to monitor the program, set the guideline rates, and administer the Advisory Committee on Cost Reduction.

Finally, S. 1624 would have a negative effect on our foreign relations. Experience has shown that an approach which relies on Government intervention in the market does not serve the long-term interests of the country.

Over the past 2 years, the administration has developed initiatives based on the premise that the forces of competition can be made to work for the benefit of the U.S. merchant marine. Our promotional bill takes this approach.

We are also exploring ways to streamline and make more efficient the administration of our operating differential subsidy program.

In addition, we are reviewing regulations which affect the maritime industry in order to lessen the regulatory impact on the industry by eliminating unnecessary and duplicative regulations.

These and other measures will strengthen and revitalize the U.S.-flag fleet by making the industry more cost competitive and efficient.

With respect to S. 1616, this bill would repeal three cargo preference laws that apply to the ocean transportation of Government-impelled cargoes and replace these laws with proposed legislation to be known as the Government Impelled Cargo Act of 1983.

S. 1616 would require that all waterborne cargo affecting the national security of the United States be transported in U.S.-flag vessels. It would establish a 50-percent reservation for U.S.-flag vessels for all waterborne cargo not affecting the national security in instances in which the U.S. Government obtains the cargo for its own use, furnishes the cargo to foreign nations, or provides financing for the purchase or transportation of the cargo.

With respect to the waterborne cargo not affecting the national security of the United States, S. 1616 would require that all such cargo be transported in U.S.-flag vessels whenever the United States provides for any form of grant, loan, credit, advance of funds, cash transfer, or guarantee, and such financial assistance is used to pay at least 50 percent of the cost of procuring, contracting for or otherwise obtaining the cargo, or any of the freight charges for the cargo.

The Secretary of Transportation would be permitted to waive an amount not to exceed 50 percent of the gross tonnage of such cargo in order to allow the cargo to be carried in vessels of the recipient nation, if U.S.-flag vessels have equal access to cargo originating in that nation.

Mr. Chairman, after careful study we have concluded that although the three existing cargo preference laws are not without problems, they are too important for our merchant marine to attempt a major restructuring that would alter their content.

As the subcommittee is aware, reserved cargoes generated by our cargo preference laws play an important role with respect to the health and well-being of the U.S. merchant marine today. For example, the Cargo Preference Act of 1904 generates vast amounts of cargo that U.S.-flag operators vigorously compete for.

In fiscal year 1981, the Department of Defense, for example, generated 7.3 million measurement tons of dry cargo and 12 million long tons of petroleum cargo. Of this amount, U.S.-flag vessels transported 6.8 measurement tons of dry cargo and 8.2 million long tons of petroleum cargoes. We would expect 1983 to approximate, if not exceed, these figures.

At the present time cargoes subject to Public Resolution 17 are primarily generated by the Export-Import Bank. In 1980, such transactions involved total freight revenues of $87 million, of which $65 million were paid to privately owned U.S.-flag merchant vessels.

It is our projection that total freight revenue in 1983 will be in excess of $85 million, with U.S.-flag vessels receiving at least $65 million in freight revenues.

Finally, in 1980, the cargo preference requirements of Public Law 664 generated 9.3 million metric tons of cargo, of which 3.3 million metric tons were transported in privately owned U.S.-flag merchant vessels. In 1983, we would expect U.S.-flag vessels to receive in excess of 12 million metric tons of the total of 20 million metric tons which should be generated this year.

It is clear from these figures that reserve cargoes are an important source of revenue for U.S.-flag carriers. I also might note that the vigorous efforts of the Maritime Administration in enforcing our existing cargo preference laws would appear to be reflected in the above figures.

Mr. Chairman, the administration continues to strongly support our existing cargo preference laws. We do not deem it prudent to amend these laws which are so important to the U.S. merchant marine today. Therefore, we are opposed to S. 1616, the Government Impelled Cargo Act of 1983.

The third bill before the committee this afternoon is S. 206. Under the terms of this bill, the Secretary of Transportation would have the sole responsibility for determining and designating those programs subject to the cargo preference requirements.

Every department having responsibility for a program so designated would administer it under regulations issued by the Secretary, and the Secretary would review such administration.

It is clear that S. 206 would alter the status quo, and as I have previously indicated, the administration cannot support either an expansion or a contraction of the existing cargo reservation laws at this time.

Finally, Mr. Chairman, I would like to comment on S. 188, a bill that would amend title IV of the Merchant Marine Act of 1936 by adding a new section which would generally require the U.S. Postal Service to use exclusively U.S.-flag vessels for the international sea transportation of the U.S. mail.

The rate charged would be required to comply with the Shipping Act of 1916 and would not be less than the sum of the fully distributed costs of the carriage of the mail plus a fair and reasonable profit. Also, no invitation to bid for the carriage of mail would be permitted to state specific size of containers.

At the present time air carriers transport the predominant part of overseas shipments by the U.S. Postal Service. During the first three quarters of fiscal 1983, U.S.-flag vessels carried only 38 percent of the total oceanborne mail volume from the United States and some 45 percent by revenue. The remainder of such ocean mail was shipped in foreign flag vessels.

The administration cannot support S. 188. The bill contains a number of deficiencies. For example, the rate established for U.S.-flag transportation is a floor, not a ceiling. Further, the bill does not recognize legitimate service requirements of the Postal Service. These include sailing schedules and flexibility for container sizes. In some instances, the U.S. sailing schedules for foreign destinations are inadequate. Also, some foreign postal administrations can handle containers only of certain specified sizes.

The administration appreciates the effort by this bill to further the development and the maintenance of an adequate and well-balanced American merchant marine. It is noted that without the bill, U.S.-flag carriers in fiscal 1983 would earn in excess of $4 million in revenue from carriage of the Postal Service directed mail overseas of a total of about $11 to $12 million.

Be assured that we will exert every effort to insure that U.S.-flag carriers are afforded evenhanded treatment in the ocean transportation of the U.S. mail.

Mr. Chairman, that concludes my prepared statement. I will be pleased to answer any questions which you or members of the subcommittee may have.

Senator **STEVENS**. Yes, sir, Admiral.

I do appreciate your statement, although I wonder what you say about the status quo on S. 206. That bill would give the Secretary of Transportation the power to make decisions on which cargoes are subject to cargo reservation laws. Why would you object to that rather than having the Secretary of Agriculture and the Secretary of Energy make the decision as they do under existing law?

Admiral **SHEAR**. Well, as I indicated initially, Mr. Chairman, the administration cannot support either an expansion or contraction of the scope of current law at this time.

With regard to S. 206, we are working very well with the various departments, the Department of Energy and the Department of Agriculture, at the present time. They have adequate flexibility under the present laws, and we would like to keep that flexibility. Also, it would give them and us the opportunity to have much flexibility in working with each other.

I really cannot support any proposed change to the current laws at the present time, nor do I see any particular need for it.

Senator **STEVENS**. Would you also give us your views on S. 188, if the provisions which prohibit the Post Office—that is, the Postal Service—from stating the specific size of containers it desires was deleted from the bill? There seems to be some question about that particular provision that would give the Postal Service the rate to state specific size of containers. Would you give us your views on that, too, for the record?

Admiral **SHEAR**. Yes. I will leave the specifics of that to the postal department comments later on today, but various countries cannot accept bulk containers. If that were eliminated, it would help the problem. But still, it amounts to a change in the overall laws.

The facts are that we are not doing so badly at present. The total figures of annual movement of cargo by sea run between $11 and $12 million, and I will let the postal department speak on more specifics on that. We are doing reasonably well.

I mentioned 38 percent by volume and 45 percent by revenue. There are a number of areas in the world which we do not serve adequately to provide such important U.S.-flag ships. I think really we should continue as we are at the present time.

Senator **Stevens**. Senator Trible.

Senator **Trible**. Thank you, Mr. Chairman.

Very briefly, Admiral Shear, welcome. We are pleased to have you before the committee again.

Can you tell us the genesis of the $3 billion cost figure that you have advanced here today?

Admiral **Shear**. Yes; those are the best details we could get from our own sources in the Department of Energy and the Department of Agriculture.

Senator **Trible**. Is that not the figure that you advanced before the House committee?

Admiral **Shear**. Yes; it is.

Senator **Trible**. We have a very different bill here, Admiral Shear. When you used that figure before the House, Chairman Biaggi said that those were "the worst case figures," that they were "15 years down the line." He asked, "Who knows what conditions will be?" and said that he did not believe yours was a fair assessment.

I concur in that assessment. It is not fair in my judgment. But beyond that, we have a different bill here. The bill that is before this committee is vastly different than the bill before the House committee. It requires more substantial savings up front, 20 percent as opposed to 15 percent. It also provides for a cost differential.

So that suggests to me, Admiral Shear, in all respect, that those figures have very little validity. Finally, I doubt that they consider the tax revenues generated by this legislation, the ripple effect of wages on our economy, the unemployment benefits that would not be paid, and the value of the defense function.

Would you submit for the record the justification for that $3 billion cost assessment, and would you speak specifically to the provisions in the legislation before this committee?

Second, I would just like to read one thing, if I might, Mr. Chairman. It is a quotation of Ronald Reagan, August 1980:

> A specific naval maritime program must be developed that will recognize the challenges created by cargo policies of other nations. The United States has traditionally espoused free trade. However, international shipping trade is laced with a network of foreign governmental preferences and priorities, designed to strengthen foreign fleets, often at the expense of U.S. maritime interests.
>
> We must be prepared to respond constructively for our own interests to the restrictive shipping policies of other nations. A major goal of the United States must be to ensure that American flag ships carry an equitable portion of our trade.

Admiral, are you telling us today that that statement is no longer operative?

Admiral **Shear**. No; I am not saying any such thing. It very definitely is operative. The administration fully supports the most vigorous, modern, and competitive merchant marine that we can provide. We have a long way to go to get there.

Senator **Trible**. Well, if you would for the record again, set forth the steps that the administration has taken to improve our share of oceangoing cargo. I would like, moreover, for the record, if you would simply state our position today vis-a-vis 1980.

Finally, Mr. Chairman, I would have a series of other questions that I would like to submit for the record.

Senator **Stevens**. Surely.

I understand that Senator Inouye has some questions directed to you, too, Admiral. I would appreciate it if you could provide answers to those questions.[1]

Admiral **Shear**. I would be happy to provide answers, Mr. Chairman.

Senator **Stevens**. Thank you very much. We appreciate your courtesy in appearing today.

[The statement follows:]

STATEMENT OF ADM. HAROLD E. SHEAR, MARITIME ADMINISTRATOR, DEPARTMENT OF TRANSPORTATION

Mr. Chairman and Members of the Subcommittee:

My name is Harold E. Shear, and I am the Maritime Administrator of the Department of Transportation. I am pleased to appear before the Subcommittee to present the views of the Administration with respect to S. 188, S. 206, S. 1616, and S. 1624, including the proposed amendment to S. 1624, sponsored by Chairman Stevens.

Before I get into the details of the Administration's position on these bills, I would like to make clear once again the President's commitment to the existing cargo preference laws. As you know, the two major policy announcements made by Secretary Lewis in May and August 1982, which outlined the Administration's position on various aspects of maritime promotional policy, reaffirmed support for the cargo preference laws currently in effect. The Administration continues to strongly support these laws, and, where required, would support an appropriate clarification of existing law. However, as I indicated during hearings held before the House Subcommittee on Merchant Marine, we do not support either an expansion or a contraction of the scope of current law at this time, and for that reason the Administration opposes S. 188, S. 206, S. 1616, and S. 1624, including the proposed amendment I mentioned.

First I would like to discuss the basis for the Administrations's opposition to S. 1624, the Merchant Marine Revitalization Act of 1983. This legislation would require that 5 percent of all U.S. bulk imports and exports be carried on U.S.-flag vessels in the calendar year following enactment, with the precentage increasing by 1 per centum per year until a level of 20 percent is reached. The proposed legislation would also require the Department of Transportation to establish and publish guideline rates for the carriage of bulk cargoes subject to the Act, and to establish an advisory committee to assist in finding ways to reduce U.S.-flag vessel operating and construction costs by at least 20 percent, which would be accounted for in computation of the guideline rates. Finally, unlike the proposed legislation currently before the other body, S. 1624 would make provision for a tax credit for shippers to offset a part of any freight rate differential resulting from the cargo reservation requirements of the bill, and permit the Secretary of Transportation to enter into an agreement with a shipyard under which the shipyard could deposit income generated under any shipbuilding or ship repair contract in a tax-deferred account to be used later for shipyard improvements.

The Administration supports the objectives of encouraging a newer, more efficient and less costly U.S.-flag fleet by lowering both shipbuilding and ship operating costs. One of the major concerns of this administration has been the long-term decline of the American Maritime Industry. America needs a strong and viable merchant fleet, with modern cargo capabilities to enable it to compete on would markets. The pride this nation once had in its merchant fleet must be restored. A modern, revitalized American merchant fleet, manned by skilled and trained American seamen, is a goal which must be achieved.

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[1] See p. 305.

However, we cannot support the approach taken by S. 1624, which employs the mechanism of cargo reservation, a measure which distorts the free market, to achieve those objectives. Our objections also reflect a number of other major concerns with the proposed legislation.

Cargo reservation would increase shipping costs of bulk imports and exports which would not be offset by the savings proposed by this bill. The annual cost of 20-percent cargo reservation for bulk cargoes has been estimated to be as much as $3 billion. This increase in shipping costs would increase the cost to the consumer and other users of bulk imports primarily petroleum, residual fuel oil, iron ore and bauxite; it would also increase the cost of U.S. bulk exports, such as coal and agricultural products, to the point that they could lose market opportunities.

A related concern is the severe adverse effect this legislation would have on U.S. agriculture. If historic rate differentials provide an accurate means of forecasting, the additional freight cost of S. 1624 on U.S. bulk agricultural exports could be as high as $1.9 billion. This would no doubt have a dampening effect on U.S. agricultural exports which are already decreasing. Further, since U.S. export and domestic prices for major bulk commodities are inextricably linked, the only way to maintain U.S. export volume would be for the price of bulk commodities to fall in the domestic market to compensate for higher freight costs from cargo preference. In addition, U.S. traders could become immobilized by the bill's procedures.

Further, the proposed legislation would place an additional administrative burden on the Government to monitor the program, set the guideline rates and administer the advisory committee on cost reduction. Such an expansion, requiring additional personnel and regulations, is clearly against the Administration's policy to simplify and minimize government interference in the market. The legislation would also be costly to employment in other sectors of the economy, and would restrict importation of maritime services with the attendant adverse impact on American jobs.

Finally, S. 1624 would have a negative effect on our foreign relations. Passage of the proposed bill would have adverse consequences for the Administration's commitment to liberalize trade in service industries, and to resist cargo allocation regimes in international liner shipping. This country has a commitment to, and a greater stake than any other country in, free trade. If this legislation were enacted, the U.S. would be viewed by its allies as endorsing a protectionist measure substantially at variance with this basic policy.

Experience has shown that an approach which relies on government intervention in the market does not serve the long-term interests of this country. It is imperative that we find ways to make the free market work for the benefit of this industry. Only in that way can we seek to secure the long-term viability for the U.S. merchant marine.

Over the past two years, the Administration has developed initiatives based on the premise that the forces of competition can be made to work for the benefit of the U.S. merchant marine. Our promotional bill takes this approach. We are also exploring ways to streamline and make more efficient the administration of our operating differential subsidy program. In addition, we are reviewing regulations which affect the maritime industry in order to lessen the regulatory impact on the industry by eliminating unnecessary and duplicative regulations. These and other measures will strengthen and revitalize the U.S.-flag fleet by making the industry more cost competitive and efficient.

As far as S. 1616 is concerned, let me go into more detail about the bill and the basis for the Administration position opposing the legislation. S. 1616 would repeal the cargo preference laws that apply to the ocean transportation of Government-impelled cargoes, and replace these laws with proposed legislation to be known as the "Government-Impelled Cargo Act of 1983."

The three cargo preference laws that would be repealed by the legislation are the Cargo Preference Act of 1904 (10 U.S.C. 2631), Public Resolution 17 (46 U.S.C. 1241-1), and the Cargo Preference Act of 1954 (46 U.S.C. 1241(b)), also known as Public Law 664.

As you know, the Cargo Preference Act of 1904 generally requires that military cargoes be shipped on vessels of the United States or belonging to the United States. The 1904 Act does not mandate the use of privately-owned, United States-flag commercial vessels. However, the Cargo Preference Act of 1954 requires that 50 percent of such military cargoes be shipped on privately-owned, United States-flag commercial vessels.

The second statute, Public Resolution 17, provides that it is the "sense of Congress" that in any loans made by a Government agency to foster the export of agricultural or other products, provision shall be made that such products shall be carried exclusively in vessels of the United States. Statutory waivers are granted when

United States-flag vessels are not available. General waivers are granted to permit vessels of recipient nations to carry up to 50 percent of the ocean cargoes, provided that United States-flag carriers do not experience discrimination in trade with the recipient nation. At the present time, about 75 percent of Public Resolution 17 cargoes are transported by United States-flag merchant vessels.

The third cargo preference law that would be repealed by the subject legislation is the Cargo Preference Act of 1954, which requires that at least 50 percent of Government-generated cargoes be shipped on privately-owned United States-flag commercial vessels to the extent such vessels are available at fair and reasonable rates. The Cargo Preference Act of 1954 is commonly referred to as Public Law 664.

Public Law 664 applies to all government agencies when shipping on ocean vessels "equipment, materials, or commodities" that have been procured by the United States for its own account, furnished by the United States for the account of a foreign nation, or for which the United States advances funds or credits or guarantees the convertibility of foreign currencies.

These cargo preference laws would be repealed and replaced by S. 1616, which would classify cargoes subject to the Act as waterborne cargo affecting the national security of the United States, and waterborne cargo not affecting the national security of the United States. Waterborne cargo not affecting the national security of the United States would be further classified in the bill as Government-impelled as the result of either direct Government involvement or indirect Government involvement.

Section 2 of the bill would require that 100 percent of all waterborne cargo affecting the national security of the United States be transported in United States-flag vessels. One of our concerns is that in most categories, this section represents an expansion of existing cargo preference requirements. For example, S. 1616 would require that all oil and other petroleum products procured for the Strategic Petroleum Reserve (SPR) be transported on U.S.-flag vessels, compared to the current requirement that 50 percent be transported in privately-owned U.S.-flag vessels. Such an expansion could increase the cost of transporting oil to the SPR and would impair the government's ability to purchase crude oil at advantageous prices on the spot market. Thus, while we believe that it is important to maintain the current 50 percent requirement for the significant contribution that it makes to the health of our merchant marine, we also believe that expansion of the requirement could well infringe on the flexibility needed by programs such as the Strategic Petroleum Reserve to fulfill effectively their statutory requirements.

Further, section 2 would mandate that 100 percent, rather than the current 50 percent, of all materials contracted for the National Defense stockpile be transported in the U.S.-flag vessels. It would expand the current requirement of supplies bought for the Army, Navy, Air Force or Marine Corps be transported by U.S. ships, by adding the Coast Guard to the list of covered agencies and by expanding the scope of such cargoes from "supplies" to "equipment and supplies." Finally, it would add a whole new category to the 100 percent requirement described as "any other equipment, materials, or commodities, of any description, certified by the President as affecting the national security of the United States." The Administration cannot support any of these expansions.

Sections 3 and 4 of S. 1616 deal with waterborne cargoes not affecting the national security of the United States and require that not less than 50 percent of the gross tonnage of these Government-impelled cargoes be transported in United States-flag vessels. Such cargoes are classified in the bill as being Government-impelled as the result of direct or indirect Government involvement.

In the case of direct Government involvement resulting in the ocean transportation of non-national security cargoes, section 3 of S. 1616 provides that at least 50 percent of the gross tonnage of these cargoes be transported in U.S.-flag vessels and the requirement applies when:

a. The United States procures, contracts for, or otherwise obtains the cargo for its own account;

b. The United States furnishes the cargo to or for the account of any foreign nation free of any charge for the cargo; or

c. The United States sells the cargo to or for the account of any foreign nation at a price that is less than the cost to the United States of procuring, handling, and storing the cargo.

Public Law 664 currently provides that the 50 percent cargo preference requirement will apply "Whenever the United States shall procure, contract for or otherwise obtain for its own account, or shall furnish to or for the account of any foreign nation without provision for reimbursement, any equipment, materials, or commodities, within or without the United States. . . ."

In the case of indirect Government involvement resulting in the ocean transportation of non-national security cargoes, section 4 of S. 1616 provides that all waterborne cargo shipped to or from the United States shall be transported in U.S.-flag vessels whenever the United States provides to any entity, foreign or domestic, any form of grant, loan, credit, advance of funds, cash transfer, or guaranty, and such financial assistance is used to pay (a) at least 50 percent of the cost of procuring, contracting for, or otherwise obtaining the cargo, or (b) any of the freight charges for the cargo. In addition, section 4 of the bill provides that "Any grant, loan, credit, advance of funds, cash transfer, or guarantee provided in accordance with this section shall be conditioned on the responsible agency obtaining agreement by the recipient entity to comply with the requirements of this Act."

In this regard, Public Law 664 currently requires that the 50 percent cargo preference requirement shall apply "Whenever the United States . . . shall advance funds or credits or guarantee the convertibility of foreign currencies in connection with the furnishing of such equipment, materials, or commodities."

The Administration opposes sections 3 and 4 of the bill because it would substantially change the scope of existing cargo preference requirements. While the method of calculating the 50 percent limit in subparagraph (a)(1) is far from clear, it appears that these sections could expand the practical application of cargo preference requirements beyond their current application. As I just mentioned in connection with sections 1 and 2, the Administration does not support expansion of existing cargo preference laws.

Although section 4 of the bill provides that all waterborne cargo not affecting the national security of the United States shall be transported in U.S.-flag vessls, in fact, all cargoes generated by the Export-Import Bank and the agreed 100 percent U.S.-flag shipping requirement on foreign military sales administered by the Defense Security Assistance Agency would not be shipped in U.S.-flag vessels. Of the Export-Import Bank generated cargo, it is estimated that in 1983 approximately $40 million of the projected $65 million entitlement would be lost under the bill. With respect ot the foreign military sales program, a reduction to a 50 percent U.S.-flag shipping requirement would result in a loss of $21 million in ocean freight revenue based on a $42 million projection. Specifically, the provisions set forth in paragraphs (1) and (2) of section 4 would effectively eliminate cargo preference requirements for these programs, as well as for the cargo generated by direct programs. This is because in many programs the United States may pay less than 50 percent of ther cost of cargoes pruchased with Federal assistance, and Federal funds may or may not be used to pay the freight charges or other transportation costs associated with the cargoes.

Lastly, on section 4, I must note that although section 4(a) has included the terms "cash transfer", "grant" and "guarantee" within the purview of the bill, any benefit gained from their inclusion is quickly lost in section 4(a)(1) by the requirements that such financing be directly used to pay at least 50 percent of the cost of procuring, contracting for or otherwise obtaining the cargo. Since funds advanced by these programs are commingled with other funds of their recipients, tracking a procurement to such funds is nearly impossible under Public Law 664 and could only be made worse by legislating such a requirement. For example, the $50 million in ocean freight revenue we have achieved through a side agreement with Israel under its cash transfer program would be jeopardized since we could not track the funds under the program.

Mr. Chairman, after careful study, we have concluded that although the three existing cargo preference laws are not without problems, they are too important for our merchant marine to attempt a major restructuring that would alter their content.

As this Subcommittee is aware, reserved cargoes generated by our cargo preference laws play an important role with respect to the health and well-being of the U.S.-flag merchant marine.

For example, the Cargo Preference Act of 1904 generates vast amounts of cargoes that U.S.-flag operators vigorously compete for. In fiscal year 1981, the Department of Defense generated 7.3 million measurement tons of dry cargo and 12 million long tons of petroleum cargo. Of this amount, U.S.-flag merchant vessels transported 6.8 million measurement tons of dry cargo, and 8.2 million long tons of petroleum cargoes. We would expect 1983 to appropriate, if not exceed, these figures.

At the present time, cargoes subject to Public Resolution 17 are primarily generated by the Export-Import Bank. In 1980, such transactions involved total freight revenue of $87 million, of which $65 million was paid to privately-owned U.S.-flag merchant vessels. In 1983, we would expect U.S.-flag vessels to receive in excess of 12 million metric tons of the total 20 million metric tons that should be generated.

It is clear from these figures that reserved cargoes are an important source of revenue for U.S.-flag carriers. I also might note that the vigorous efforts of my agency to enforce our existing cargo preference laws would appear to be reflected in the above figures.

Mr. Chairman, the Administration continues to strongly support our existing cargo preference laws. We do not deem it prudent to amend these laws which are so important to the U.S. merchant marine. Therefore, we are opposed to S. 1616, the Government-Impelled Cargo Act of 1983.

The third bill before the Subcommittee this morning is S. 206. Under the terms of this bill, the Secretary of Transportation would have the sole responsibility for determining and designating those programs subject to the cargo preference requirements. Every department having responsibility for a program so designated would administer it under regulations issued by the Secretary, and the Secretary would review such administration. It is clear that S. 206 would alter the status quo, and as I have previously indicated, the Administration cannot support either an expansion or a contraction of the existing cargo reservation laws at this time.

Finally, Mr. Chairman, I would like to comment on S. 188, a bill that would amend Title IV of the Merchant Marine Act, 1936, by adding a new section that would generally require the U.S. Postal Service to use exclusively U.S.-flag vessels for the international sea transportation of the U.S. mail in those cases in which a carrier operating such vessels is engaged in the provision of regular transportation services to be destination specified by the Postal Service. The rate charged would be required to comply with the Shipping Act of 1916 and would not be less than the sum of the fully distributed costs for the carriage of the mail plus a fair and reasonable profit. Also, no invitation to bid for the carriage of mail would be permitted to state specific size of containers.

As this Subcommittee is aware, a general requirement that United States mail be transported on U.S.-flag vessels first appeared in section 24 of the Merchant Marine Act, 1920. This requirement was generally continued in the Merchant Marine Act of 1928, section 405(a) of the Merchant Marine Act of 1936, and the 1960 revision of Title 39, "The Postal Service". However, when Title 39 was again revised in 1970, no comparable U.S.-flag requirement was enacted into law, and the legislative history would appear to be silent on this point.

At the present time, air carriers transport the predominate part of overseas shipments by the U.S. Postal Service. During the first three quarters of fiscal year 1983, U.S.-flag vessels carried only 38 percent of the total oceanborne mail volume from the United States. The remainder of such ocean mail was shipped on foreign-flag vessels.

Mr. Chairman, the Administration cannot support S. 188. The bill contains a number of deficiencies. For instance, the rate established for U.S. flag transportation is a floor, not a ceiling, namely fully distributed costs plus a fair and reasonable profit. This standard is in sharp contrast to the ceiling contained in the Cargo Preference Act of 1954 of "fair and reasonable rates." Operations under the bill would subject the Postal Service to potentially unlimited increased costs in contravention of its mandate to achieve self-sustaining financial responsibility.

Further, the bill does not recognize legitimate service requirements of the Postal Service. These include sailing schedules and flexibility for container sizes. In some instances the U.S. carrier sailing schedules for foreign destinations are inadequate. Also some foreign postal administrations can handle containers only of certain specified sizes. S. 188, if enacted into law, would seriously undermine the Postal Service's ability to provide prompt and economic services for international surface mail. In addition, the bill expands the current cargo preference laws and, as mentioned above, the Administration does not support either an expansion or a contraction of these laws at this time.

The Administration appreciates the effort by this bill to further the development and maintenance of an adequate and well balanced American merchant marine. It is noted that without the bill U.S.-flag carriers in fiscal year 1983 will earn in excess of $4 million in revenue from carriage of Postal Service directed mail overseas of a total of about $11 million. Be assured that I will exert every effort to ensure that U.S.-flag carriers are afforded even-handed treatment in the ocean transportation of U.S. mail.

Mr. Chairman, that concludes my prepared statement, and I will be pleased to answer any questions that you or the Member of the Subcommittee may have. Thank you.

Senator **Stevens**. Mr. Orlando, the Director of Transportation and International Services for the U.S. Postal Service. We are happy to have you here. I understand that Mr. Scherr, Assistant General Counsel for the Transportation Division, is along with you; is that correct?

Mr. ORLANDO. That is correct, Mr. Chairman.

Senator STEVENS. Thank you very much.

STATEMENT OF JAMES E. ORLANDO, DIRECTOR OF TRANSPORTATION AND INTERNATIONAL SERVICES, MAIL PROCESSING DEPARTMENT, U.S. POSTAL SERVICE, ACCOMPANIED BY ROBERT A. SCHERR, ASSISTANT GENERAL COUNSEL, TRANSPORTATION DIVISION, LAW DEPARTMENT

Mr. ORLANDO. Mr. Chairman, we appreciate the subcommittee's courtesy in extending us the opportunity to testify concerning S. 188, a bill proposing certain restrictions on the transportation of mail by ocean vessel.

S. 188, if enacted into law, would seriously undermine the Postal Service's ability to provide prompt and economical service for international surface mail. It could hinder competition, not only between U.S. and foreign carriers, but also among U.S. carriers.

The bill would amend title IV of the Merchant Marine Act by adding a new section requiring the Postal Service to use vessels of the United States rather than foreign registry for any international sea transportation of mail, if at least one such carrier regularly serves the required destination. The Postal Service apparently would be required to use U.S.-flag carriers regardless of the adequacy of sailing schedules, appropriateness of container sizes available, or discrepancies in costs as between the United States and foreign flag service.[1]

The negative effect of such a provision on service and price would be legion. For instance, inadequacy of U.S.-carrier sailing schedules to some destinations is a prime factor in many decisions to use foreign vessels. The transit time of foreign carriers is on the average 5 days less than that of U.S. carriers. In the past year, transit time differentials and other deficiencies in sailing schedules of U.S. carriers accounted for 4 of a total of 37 international surface mail contracts being awarded to foreign carriers. Substantial delays would result on some routes if the Postal Service were prohibited from engaging foreign vessels on the basis of these kinds of service criteria.

Current postal regulations not only permit, but in appropriate cases may require, specification of container sizes to be provided by the carrier. Present law specifically requires that modern methods of transporting mail by containerization shall be a primary goal of postal operations. The law in question is 39 U.S.C.

S. 188 would eliminate the Postal Service's authority to prefer the container size it needs, apparently regardless of the amount of mail the Postal Service will have available to dispatch. The likely result is that some carriers would require the use of containers much larger than the Postal Service needs. If this happens, service may be delayed as mail is held until capacity is reached, or the Postal Service and the mailing public may be forced to pay for space not needed or used.

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[1] Current Postal Service contracting regulations require solicitations of competitive bids for international ocean transportation service. Postal Contracting Manual 19-503.1. These solicitations are to include, among other things, minimum schedules for mail transportation. Failure to meet these requirements may cause bids or offers to be rejected as nonresponsive. PCM 19-503.222. In addition, where necessary, the type of container to be provided by the contractor is to be specified, and bidders or offerors are to state the cubic capacity of the containers to be used. PCM 19-503.223.

Furthermore, some receiving foreign postal administrations and foreign port receiving docks can handle containers only of a certain specified size. The bill apparently could prevent the Postal Service from containerizing mail to these countries, with reduced efficiency and greater cost the result.

The bill would increase costs in other ways. A table showing the present division of business between U.S.- and foreign-flag carriers follows:

	Number of contracts	Fiscal year 1983			
		Volume (number of containers)		Value	
		3 quarters	Projected	3 quarters	Projected
U.S	8	378	504	$920,841	$1,227,788
Foreign [1]	37	1,515	2,020	3,049,567	4,066,089
Total	45	1,893	2,524	3,970,408	5,293,877

[1] Reasons awarded: 4, service factors (frequency, transit time); 15, lower rates; 18, no U.S.-flag bid. If S. 188 had been law, the Postal Service would have been prevented from obtaining adequate service at reasonable, competitive rates, on at least 19 contracts out of the total 45 awarded.

On the average, bids submitted by U.S. carriers during the present year have been 38 percent higher than those submitted by foreign-flag carriers. This is an average differential, as there is considerable variation on individual routes. Using the average difference, the Postal Service might have expected to spend $1.4 million more if this requirement had been in place for fiscal 1983.[2]

Senator STEVENS. Billion or million?

Mr. ORLANDO. Million, $1.4 million.

For a number of reasons, the cost increases that could be expected in practice could be much higher than this. Bids from U.S. carriers could be expected to be larger on many routes, both where they already have the contracts and where they do not, once they know that they need not worry about competing with foreign-flag carriers.

Other hidden costs of the bill include loss of individual shipping line efficiencies because of the requirement to base contract prices on fully distributed industrywide costs of common carriers, including a fair and reasonable profit Furthermore, the bill uses this formula only as a floor, not a ceiling. In other words, in the situations where only one U.S. carrier provides service, that carrier apparently would be able to name its own price, incorporating as much more than a fair and reasonable profit as it wanted.

Reduced competition, then, would restrict the Postal Service to an artificial market of elevated prices and inferior services. Other anticompetitive aspects of the bill are also troubling. Why, for example, are the only restrictions on contract term—that is, for 1-year limitations—reserved for contracts which have been bid competitively between two or more U.S. carriers?

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[2] Of course, not all of the contracts could be given to U.S. carriers. Of the 45 international surface mail contracts awarded in the past, 18 were given to foreign-flag carriers because no U.S. carrier bid for the contract. In some of these cases a U.S. carrier might have bid if it knew there could be no foreign competition.

Why should such significant factors as container size considerations be purged from the selection process? This restriction would interfere with fair competition between U.S.-flag carriers by preventing competition based on meeting customer needs as to container size and probably by disadvantaging certain carriers to the benefit of others.

The bill poses a number of other problems of interpretation and administration. For instance, the question of service availability may not be readily resolved at the time a contract is put up for bids. If a vessel has a schedule which fails to meet the Postal Service's needs by several days, does it or does it not constitute an available vessel?

Additionally, it is not fully apparent how the bill intends to accomplish its introduction of a regulated rate floor into what remains a competitive procurement process. The procedures intended to determine and enforce the regulated rate floor are not at all clear.

By singling out the U.S. mail for requirements not imposed on the economy generally, the bill proposes what amounts to subsidies from the postage ratepayers to U.S. shipping. The Postal Service and mail users have been required under law to assume the financial responsibility to pay their own way. Therefore, they should not be saddled, in acquiring services from postal contractors, with the additional burden of subsidizing those contractors for nonpostal policy reasons.

For all of these reasons, the Postal Service opposes enactment of S. 188. We would be pleased at this time to attempt to respond to any questions that you may have, Mr. Chairman.

Thank you, sir.

Senator STEVENS. Thank you, and I apologize for having stepped out.

You said that 19 of the 45 contracts would not have been able to be fulfilled if this bill became law, is that right?

Mr. ORLANDO. That is correct.

Senator STEVENS. Does that include the 18 that we had no bids for?

Mr. ORLANDO. No, sir, that does not.

Senator STEVENS. You have a contract, I understand, with the Polish national ship line?

Mr. ORLANDO. I believe we do, yes, sir.

Senator STEVENS. Do you have similar contracts with the Soviet Union or other Iron Curtain countries?

Mr. ORLANDO. I am not aware of any contracts with the Soviet Union, Mr. Chairman. And off the top of my head, I cannot recall any with other Eastern bloc countries or Soviet countries.

Senator STEVENS. It just seems that that is not appropriate if we have these current sanctions on. How did that contract survive?

Mr. ORLANDO. Well, sir, perhaps this is a problem with our own regulations, and Mr. Scherr, I am sure, might have something to add to that. But with the competitive process, once our service requirements are stated by regulation, essentially what we are doing is awarding to the low bidder, regardless of the flag of the vessel involved.

Senator **Stevens**. Does that include military cargo at all?

Mr. **Orlando**. No, sir, it does not.

Senator **Stevens**. Thank you.

Senator Trible.

Senator **Trible**. Well, I really did not have any questions, Mr. Chairman, but the thought of Poland carrying our mail demands that I say at least one thing.

Admiral Shear in his testimony cited as his first objection to any kind of cargo equity legislation the fact that it distorts the free market. Well, the question that I would have posed to Admiral Shear if time had permitted is, What free market? In the maritime world today there really is not a free market, and we better start recognizing that reality.

And I think the fact that you are turning to Poland underscores that fact. How can the American merchant marine respond to competition from government-run, subsidized, and controlled carriers like Poland? It is impossible.

I think it is outrageous, totally aside from this legislation, that you would do business with Poland. And I can assure you, to the full extent possible I am going to see that no longer do we use Polish or Eastern European or Soviet ships to carry our goods.

But the truth is, there is no free market today in the maritime world, and the problem that we have, quite frankly, is that for too long we have required our shippers or our shipbuilders and our shipowners to compete with the maritime presence of other nations, that are fully subsidized or largely subsidized. And it is not fair. No wonder our numbers are in decline.

Mr. **Orlando**. Senator Trible, I would like to add one comment to that if I may, sir.

The Postal Service provides service to 161 nations of the world. Some are Eastern bloc countries, some are democracies, some are dictatorships. And we attempt to maintain this open communication line and have done so for an awful long time.

It is not always possible to procure the service of the nature that you mentioned to certain destinations where there are no other flags available. And I imagine that Polish-American Lines, which I believe is the company that you speak of—that is the case in several instances.

Senator **Trible**. That is the only Eastern European or Soviet-sponsored maritime company that you do business with?

Mr. **Orlando**. That is the only one that comes to mind, yes, sir.

Senator **Trible**. Well, submit for the record, if you will, a fuller and more complete statement if there are others.

I cannot help but say that I do not think the Polish Government would stop the flow of all of the social security checks if you ran them over there in non-Polish vessels.

Mr. **Orlando**. Assuming I could find one, I would not object.

Senator **Stevens**. Thank you very much. We appreciate it, Mr. Orlando.

Mr. **Orlando**. Thank you, sir.

[The following information was subsequently received for the record:]

The Postal Service in the past has had an ocean contract with Polish Ocean Line for the transportation of U.S. mail from New York to Gydnia, Poland. This contract was in effect from September 1981 to September 1, 1982, when it expired by its terms. A solicitation has been posted for service from New York to Poland and it is expected that Polish Ocean Lines will submit a bid for this service. At present the Postal Service holds no contracts with ocean lines of the Soviet Union or any Soviet Bloc or Eastern European country. Nonetheless, the Department of State advises that there is no law or administrative sanction imposed as a matter of U.S. foreign policy which prohibits or restricts the Postal Service from entering into contracts with steamship lines of a Soviet Bloc or Eastern European country. The Department of State does advise that it would be inappropriate, from a foreign policy standpoint, to enter into a contract with an ocean carrier of the Soviet government, except where the cargo of such carrier is transported solely between a port in the United States and one in the Soviet Union. The Postal Service has solicited for service between New York and Latakia, Syria. The lowest responsible and responsive bidder is Crossocean Lines whose ships are registered under the Yugoslavian flag. In addition, this company is owned and operated by the Government of Yugoslavia. Award of this contract is being withheld for 30 days pending further review by senior postal management. The Department of State advises that a contract with an ocean carrier of Yugoslavia would not be improper and, in fact, such a contract would be encouraged.

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS THERETO

Question. What was the total amount of international ocean mail transportation spent by the Postal Service in 1982 and 1983?

What amount of those expenditures was to U.S. flag ocean carriers versus foreign flag carriers?

Answer. The amounts as requested are as follows:

FISCAL YEAR 1983 (THROUGH 3rd QUARTER)

	Amount	Percent
Weight (pounds):		
Foreign	46,141,993	62
American	28,533,495	38
Total	74,635,488	
Payments:		
Foreign	$4,609,614.02	55
American	3,772,761.50	45
Total	8,382,375.52	

FISCAL YEAR 1982

	Amount	Percent
Weight (pounds):		
Foreign	53,831,794	52
American	50,581,033	48
Total	104,412,827	
Payments:		
Foreign	5,257,401.81	51
American	5,028,306.90	49
Total	10,285,708.71	

Question. S. 188 would require the Postal Service to use vessels of the U.S. if at least one such carrier regularly serves the required destination.

On the other hand, S. 138 provides that the Postal Service shall not be required to enter into any contract if no U.S. flag vessels are available at the time the Postal Service seeks to arrange for the transportation of mail.

Don't these two provisions balance out so that preference for U.S. vessels would only be required if there are adequate sailing schedules to meet the Postal Service demands?

Answer. If the intent of the availability clause in S. 188 means that the U.S. flag carrier must meet the Postal Service's requirements as to time of sailing, time in transit, and destination, then the bill as to this aspect would have no adverse impact on the Postal Service. Furthermore, the bill does not speak in terms of the preference being imposed only where "adequate sailing schedules" exist. Aside from the above, the bill as written does not account for any disparity in cost which may exist between the U.S. flag charges and charges of a foreign flag carrier.

Question. When the Postal Service receives bids from shipping companies which are "controlled carriers," such as Soviet Bloc operators, does the Postal Service evaluate their rates in accordance with the standards of the Ocean Shipping Act of 1978, 46 U.S.C. 817(c)(1)?

If such a controlled carrier were to bid a rate which is unjust or unreasonable under the Act, will the Postal Service reject such a bid?

Answer. The Ocean Shipping Act is not applicable to the Postal Service procurement of contract transportation. In certain instances, the rates of U.S. flag carriers are unjust and unreasonable in comparison to the offers from foreign flag carriers. Under its contracting procedures, the Postal Service will reject any offer which it considers to be unjust or unreasonable.

Question. What was the total amount of international airmail transportation spent by the Postal Service in 1982 and 1983? What amount of those expenditures was to U.S. carriers versus the foreign carriers?

Answer. The following answer is submitted for the record:

Account name	Fiscal year—		
	1982	1983 (9 months)	1983 (projected total)
U.S.-flag air carriers	$77,181,911	$65,949,505	$72,000,000
Foreign air carriers	5,654,442	4,104,936	5,500,000

Question. Does the Postal Service seek any assistance from the Federal Maritime Commission in making an evaluation of rates to make sure they are in fact just and reasonable?

Answer. The Postal Service does not seek any assistance from the Federal Maritime Commission in making a determination as to whether or not shipping rates are reasonable or unreasonable.

Question. What foreign flag shipping lines carry surface mail from the U.S. to other NATO countries? What foreign flag shipping lines carry surface mail from the U.S. to other parts of the world?

Answer. I would be pleased to answer that for the record (the information is as follows):

FOREIGN FLAG FROM UNITED STATES TO NATO COUNTRIES

Origin	Country	Port	Carrier
New York, N.Y	Great Britain	Felixstowe	Atlantic Container Lines.
New York, N.Y	France	Le Havre	Do.
New York, N.Y	Denmark	Copenhagen	Do.
New York, N.Y	Sweden	Goteborg	Do.
New York, N.Y	Netherlands	Rotterdam	Do.
New York, N.Y	Norway	Oslo	Do.
New York, N.Y	Spain	Barcelona	Zim Lines.
New York, N.Y	Belgium	Antwerp	Atlantic Container Lines.
New Orleans, La	France	Le Havre	Trans-Freight.
New Orleans, La	Great Britain	Felixstowe	Do.

FOREIGN FLAG FROM UNITED STATES TO OTHER PARTS OF THE WORLD

Origin	Country	Port	Carrier
New York, N.Y.	Australia	Sydney	Columbus Lines. Associated Container. Trader Navigation. ABC Container.
New York, N.Y.	New Zealand	Auckland	Associated Container. Trader Navigation. Columbus Line. ABC Container.
Oakland, Calif	Fiji	Suva	Blue Star.
New York, N.Y.	Syria	Latakia	Hellenic Lines.
New York, N.Y.	Poland	Gydnia	Atlantic Container Lines.
Miami, Fla	Turks and Caicos Islands		Laser Cargo Service.
Pago Pago	Western Samoa	Apia	Inter-Island Shipping.
Oakland, Calif	Japan	Kobe	Seapac
Oakland, Calif	Philippines	Manila	Maersk Co.
Oakland, Calif	Hong Kong		Do.

Question. What was the total amount of international truck mail transportation spent by the Postal Service in 1982 and 1983 to and from Canada and Mexico?

What amount of those expenditures was to U.S. truck operators versus foreign truck carriers? (Canadian or Mexican?)

Answer. Our major truck route to Mexico is from Dallas to Laredo at $210,000 per annum. The contractor is Elmer Haag and Sons, a U.S. firm.

Other routes to Mexico involve numerous small community-of-interest-type routes, which are contracted to U.S. truck operators. Total costs per year to move surface mail by truck to Mexico is approximately $300,000.

Due to our mileage apportionment agreement (transborder) with Canada, settlement in the amount of $312, 796 Canadian dollars was paid to Canada for truck service during 1981. The international accounts are not always settled on a fiscal year basis, and at this point the Canadian expenditures have not been determined yet for 1982 and 1983.

Senator STEVENS. Our next witness is Jesse Calhoon, president of the Marine Engineers Beneficial Association.

STATEMENT OF JESSE M. CALHOON, PRESIDENT, MARINE ENGINEERS BENEFICIAL ASSOCIATION

Mr. CALHOON. Thank you, Mr. Chairman. I am very pleased to testify today before this committee on behalf of the national Marine Engineers Beneficial Association.

I have long supported cargo preference or cargo reservation as a method for helping to sustain the U.S.-flag merchant fleet. Our fleet must have cargo to carry. Nothing that we might do to help our fleet will be of lasting benefit if we do not encourage the carriage of cargo in U.S.-flag ships.

Before I begin my testimony on the subject of U.S. ship cargo, I would like to say a word about vessel operations. Mr. Chairman, our U.S.-flag merchant marine now is in intensive care with terminal cancer, with no life and no hope. Without an extension of the construction differential subsidy funds, discontinued 3 years ago, and without permission to build U.S. ships in foreign yards, anyone brave or foolish enough to try to construct a vessel under these conditions will find himself in bankruptcy before the ship sets sail.

Without the recognition that a U.S.-flag fleet needs U.S.-flag ships and without the resolve to do something about ships as well as cargo, we will find that at some point in our lifetimes the American shipping industry will cease to exist. So when we look at cargo preference, we must not forget that better programs will get us nowhere without better, more cost-competitive ships. I just felt I had to say this, Mr. Chairman, from the outset.

There are many ways that we can stimulate increased carriage of cargo on U.S.-flag ships. We could start by lowering cargo freight costs as much as possible through increased efficiency and improved productivity, by operating the most modern ships we can, and by recognizing that the continued existence of our industry depends on compromise and improved labor and management productivity. That is No. 1.

Second, we can provide incentives through the tax system, for example, to encourage U.S. exporters to ship on U.S.-flag vessels. The previous DISC mechanism had a little-known and little-used provision that did just this, and I am pleased to note that Senator Trible's bill contains a similar mechanism.

Finally, we can set aside certain cargos or percentages of cargoes for carriage on U.S.-flag ships.

We have been reserving certain cargoes for U.S.-flag ships for decades. It is an important method of providing cargo. But make no mistake, it is not the only method. It will assist, but it cannot by itself support an industry that will not with its own hands see to its future.

Some people look upon cargo reservation as a uniquely U.S. instrument devised by unions to prop up a dying, inefficient fleet. They overlook the fact that cargo reservation in various forms is practiced by maritime nations the world over. They overlook the fact that cargo reservation is now in the process of being codified as an international way of doing maritime business, through the widespread adoption of the UNCTAD code. They overlook the fact that we do not live in a free trade world where other nations play by rules we may like to establish.

This subcommittee is considering four bills concerning cargo reservation. S. 188 and S. 206, both sponsored by Senator Inouye, I fully support. S. 188 requires that all U.S. mail shipped overseas be carried on American vessels. When I bought a postage stamp it did not say "Poland"; it said "U.S. Postage Stamp."

S. 206 would greatly strengthen the role of the Secretary of Transportation in administering cargo preference laws. S. 206 would remedy a longstanding problem wherein Government agencies affected by cargo reservation laws continually seek to change or evade them. Perhaps the worst offender in this regard is the State Department, which, I have often said, has a desk for every country in the world but one.

The only way to end this situation is to place one official in charge with clear authority to see that the law is adhered to. That official must be the Secretary of Transportation. To give this responsibility to any other department will merely put the fox in the chicken coop. And to continue the existing diffuse responsibility will merely ensure that Federal bureaucrats can continue to ignore the will of the Congress and the laws of the land.

I will not comment in detail on S. 1624, offered by Senator Trible, or S. 1616, which you have sponsored. Instead, I would like to make several observations that I believe are relevant in the consideration of these bills.

First, we must make cargo reservation as certain and as predictable as possible. Your bill, S. 1616, is an important step in this direction. Today, because of uncertainties as to whether the cargo preference laws will be applied and because the process of impelled cargoes is not always systematic, everything is carried on spot charters, and spot charters are the most expensive of all.

Government action does serve to drive freight rates up where actually the reservation of cargoes could move these rates in the opposite direction. Today, reserved cargoes tend to attract the most marginal ships. We could change the situation around 180 degrees by building modern, efficient ships specifically designed for the trade. For example, a recent study by the First Boston Corp. showed that with ships built abroad for Public Law 480 shipments and used on a long-term charter one could reduce U.S.-flag rates 50 percent below what they are today.

My second observation concerns what cargoes ought to be subject to cargo reservation. Currently, those cargoes are primarily Government impelled. The cost, which many forget is accepted with an important national goal in mind, is borne by all the taxpayers. It does not as a rule fall on only one group or one industry.

The maritime industry is a national asset. It is no more prudent to abandon it and to turn the job over to other nations than it would be to buy all our grain from Canada or Argentina, or all of our oil from the Soviet Union.

Through cargo reservation, thus, we support this asset. Similarly, I have supported the carriage of SPR oil on U.S.-flag ships, because the cost of this is borne by all Americans in support of a clearly defined national goal. Similarly, I believe that we should consider cargo reservation for strategic mineral imports.

But I think to spread the coverage to all types of bulk commodities, going and coming, places an unfair burden on a few industries, particularly those such as coal, farm, and lumber products which must compete in a fiercely competitive world.

I believe instead we ought to consider—and this would demand extensive investigation—applying cargo reservation to all imports. This solution would avoid penalizing U.S. exports, and would clearly generate massive amounts of cargo for our fleet, thereby encouraging even more massive domestic and foreign investment in the U.S.-flag fleet. And it would be defensible internationally because so many nations are already moving in this direction.

This leads to my third observation, and then I will stop, Mr. Chairman. The rest of the world is reserving cargoes. The rest of the world is protectionist to protect their own interests. They have accepted the world as it is, not the imaginary world of an outmoded free trade ideology. We have no national trade policy, and thousands of U.S. businesses go under because of it, and millions of

U.S. workers draw unemployment rather than paychecks because of it.

The most glaring case in point in the maritime area is the UNCTAD code of conduct for liner conferences. Within a few days, this code will take effect for nearly 100 shipping nations. When it does, a veritable stream of ships, excluded from other trades, will enter our own. The result will be severe overtonnaging and cutthroat price competition by nationally subsized fleets, leading to the bankruptcies of American-flag operators.

Mr. Chairman, no one has supported this administration and this President more faithfully than I. But on the issue of UCTAD, this administration has its head in the sand, and the rest of the world is about to give a boot to another part of our anatomy.

This Administration refuses to address itself to the question. It refuses to recognize that failure to ratify the UNCTAD code does not mean that we will be immune to its consequences. The Japanese and the Europeans have adopted the code with reservations that keep their national interests utmost in their mind.

We instead are playing King Canute as the time rolls in, inexorably. What is more, we have not been aggressive in pursuing formal bilateral shipping agreements with our trading partners and have let some slip through our fingers, as was the case over the past 5 years with South Korea, the Philippines, Venezuela, and Indonesia.

We cannot permit this to continue. In today's shipping world, an indecisive and reactive country will be left at the docks with nothing but principle to fill its cargo holds.

Mr. Chairman, I thank you for this opportunity to testify, and I would be pleased to answer any questions.

Senator STEVENS. Thank you very much.

I do not think I have ever seen any figures on what would happen if we put the cargo preference on imports. I know it has been suggested before. We may have to really seriously consider that before we are through here.

Senator Trible, do you have any questions?

Senator TRIBLE. No. I would like to thank Mr. Calhoon for his presence today and for his fine statement. I have no further questions.

Senator STEVENS. Thank you very much. We are glad to have your support and your comments.

Mr. CALHOON. Thank you, Mr. Chairman.

Senator STEVENS. Now we are going to have a panel: Charles Hiltzheimer of Sea-Land; and Admiral Holloway, Council of American-Flag Ship Operators.

Thank you, gentlemen. Nice to see you. Mr. Hiltzheimer, would you like to proceed with your statement?

STATEMENTS OF CHARLES HILTZHEIMER, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, SEA-LAND INDUSTRIES INVESTMENTS, INC.; AND ADM. JAMES L. HOLLOWAY III, PRESIDENT, COUNCIL OF AMERICAN-FLAG SHIP OPERATORS, ACCOMPANIED BY ALBERT E. MAY, EXECUTIVE VICE PRESIDENT AND GENERAL COUNSEL

Mr. HILTZHEIMER. Thank you, Mr. Chairman. I am grateful for this opportunity to express Sea-Land's support for legislation to remedy deficiencies in the cargo preference laws, specifically as they relate to liner shipping.

As Sea-Land is only engaged in the carriage of general cargoes, my remarks will address the concerns of the liner segment of the industry and will not focus on those aspects of the bills before the subcommittee that relate only to bulk shipping.

Turning to specifics of the bills, I will first address S. 206. We strongly support the naming of the Secretary of Transportation as having the sole responsibility for determining and designating a program subject to section 901 of the Merchant Marine Act. Such an improvement would be an important step, we think, toward creating a coherent and cohesive overall maritime policy in the United States to replace the existing fragmentation that handicaps U.S.-flag ship operators.

The amendment in S. 206 would also be compatible with the improvements contained in S. 1616. We also support S. 1616, and I will now comment on provisions in that bill, emphasizing again that our primary concern is with general cargoes characteristic of the liner trade.

There are two categories of Government-related cargoes that are not presently moving under the cargo preference laws, but which in our view should be, namely foreign to foreign transport of cargo destined for sale in U.S. military PX, Navy exchange, or similar facilities throughout the world, and the U.S. mail. S. 188 addresses the latter category and I will speak to it later in my statement.

Items offered for sale by PX and Navy exchange facilities are certainly an integral part of the overall military maintenance infrastructure, no less than food consumed in mess halls or supplies issued by the quartermaster or supply corps. Accordingly, it would seem both logical and in keeping with the purpose of the bill to amend section 3 to include this category of cargo, whatever the port of origin. We suggest addition to the definitions in section 7(a)(1) of an item (F) to include nonappropriated fund cargoes.

In light of the extensive economic, legislative and operational progress that has been made in furtherance of intermodal transport, the bill should be amended to recognize the role of intermodalism in the ocean transportation system. It should also reflect the fact that the cost of inland transportation, as a legitimate element of through intermodal carriage, is part of that system.

Administrators of the preference program ought not be allowed to evade utilization of U.S.-flag vessels operated by carriers offering a through intermodal service in competition with direct call all-water foreign-flag carriers. Therefore, we propose that section 7 be amended by adding a definition of "waterborne cargo" which would include within that term the land transportation within the United States of a through intermodal movement.

Turning to S. 188, a bill to reinstate the previously longstanding preference applicable to U.S. mail, Sea-Land strongly supports passage of this legislation. A general requirement that U.S. surface mail be transported on U.S.-flag ships first appeared in law in 1920. That requirement was continued in the Merchant Marine Act of 1928, which also established a program of U.S.-flag lines assistance through awards of ocean mail service contracts.

The Merchant Marine Act of 1936 established a new program of direct subsidy to U.S.-flag lines, but retained the requirement that U.S. mails be carried by U.S.-flag ships. The provisions of the 1920 and 1936 acts remained in force until 1960, when Congress passed a complete revision of title 39 of the United States Code on the Post Office Department. That Postal Act, Public Law 86-682, included a provision very similar to section 405(a) of the 1936 Merchant Marine Act.

Passage of this bill is long overdue and we commend the subcommittee for its consideration. We believe that U.S. mail should sail on U.S. ships, just as U.S. mail now flies on U.S. aircraft and foreign-origin surface mail is transported by foreign-flag ships.

For the U.S. mail to move across the Atlantic Ocean on Eastern-bloc ships can hardly be regarded as being in the public interest. Yet, that is what happens.

In P.S. Protest No. 78-51, February 26, 1979, the Postal Service ruled, following the FMC's regulation which exempts mail carriage from its purview, that the Controlled Carrier Act, the Ocean Shipping Act of 1978, Public Law 95-483, et cetera, does not apply to the U.S. mail.

It appears necessary to require the Postal Service to apply fundamental fairness and reason to its procurement policy. The Postal Service not only refuses to recognize any obligation to acknowledge the importance of the U.S. merchant marine to our national interests, or the dangers presented to those interests by Soviet bloc carriers, it now fails to recognize the realities of common carrier service. This subcommittee knows that ocean common carriers operate on advertised routes with scheduled calls and transit times designed to meet the needs of the broad shipping public.

Protests have been filed with the Postal Service in regard to eight pending solicitations for carriage of mail to European ports. The transit times demanded by the Postal Service were so unrealistically short that no carriers of any flag could meet them to three of those ports and American carriers were eliminated from the competition in most other instances.

The response of the contracting officer was: "If a carrier wants the mail, it can by efficient management modify its schedules appropriately. This is actually the nature of the competitive game." Of course, in playing its games with the state of our merchant marine, the Postal Service has not put forward any arguments in support of the arbitrary transit time requirements.

Now, finally, a brief comment on S. 1624. In section 103(a)(D) of title I of S. 1624, it would impose a more rigid and extensive domestic content rule for machinery components than other articles of components of the vessels, not an integral part of the hull or superstructure, than exists at present. This would be wrong in our view. An approach opposite to this is what is actually needed to aid U.S. shipyards and reduce the delivered cost of U.S.-built vessels.

Present domestic content rules should be eliminated so as to permit reduced costs of U.S. construction and create an incentive to build ships in U.S. shipyards. Currently there is absolutely no incentive to build a vessel in U.S. yards, due to high costs, time of construction and financing, the absence of modern diesel propulsion technology, et cetera.

Mr. Chairman, I thank you for the opportunity to formally present the views of Sea-Land and I will submit my statement for the record.

[The statement follows:]

STATEMENT OF CHARLES I. HILTZHEIMER, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, SEA-LAND INDUSTRIES, INC.

I am grateful for the opportunity to express Sea-Land's strong support for legislation to remedy deficiencies in the cargo preference laws as they relate to liner shipping.

The Sea-Land container transporation system connects 58 countries and territories, using 36 U.S.-flag containerships, 81,000 containers and 116 container terminals. Ours is an American service industry which, through the sale of international ocean transportation service, constitutes a major source of United States export revenues.

As Sea-Land is only engaged in the carriage of general cargoes, my remarks will address the concerns of the liner segment of the industry and will not focus on those aspects of the bills before the subcommittee that relate only to bulk shipping.

Every nation which has sent a merchant marine to sea has found it necessary and in the national interest to provide its ships and their operators with varying sorts of supports and incentives. The United States has included among its programs a requirement that some or all of specified classes of government-generated cargoes be transported in U.S.-flag vessels.

Implicit in cargo preference programs established by other nations in recognition that the costs of preference are worth the benefits gained by the nation. That is also particularly true of our own preference programs; which seek to counter the fact that many foreign carriers can offer significantly lower freight rates because foreign costs of assets and operations are lower. In addition to their nation's preference cargoes, some foreign maritime companies receive direct incentives from their governments to enable them to underquote American companies even for cargoes sponsored or shipped by our government.

Existing U.S. cargo preference laws recognize the need for a U.S.-flag merchant fleet-in-being effectively competing for cargoes in the world market. The availability of U.S. government-generated cargoes for U.S.-flag vessels provides the cargo base that enables them to compete against foreign carriers for the commercial cargoes. That is particularly important in an environment where other governments have been instituting preference programs reserving to their national-flag carriers cargoes which Americans regard as commercial.

Any additional freight costs borne by our government under cargo preference programs produce compensating dividends and benefits by assuring the availability of U.S.-flag vessels to carry commercial cargoes and to meet national needs in times of emergency.

A well-designed and vigorously administered cargo preference program will provide incentives for the maintenance and growth of the U.S. liner fleet. The long-term benefits of added maritime jobs, improved balance of payments and strengthening of the defense mobilization base justify the investment.

Turning to specifics of the bills, I will first address S. 206. We support the naming of the Secretary of Transportation as having the sole responsibility for determining and designating the programs subject to section 901 of the Merchant Marine Act. Such an improvement would be an important step toward creating a coherent and cohesive overall maritime policy in the United States to replace the existing fragmentation that handicaps U.S.-flag ships operators.

The amendment in S. 206 would also be compatible with the improvements contained in S. 1616. We also support S. 1616 and I will now comment on provisions in that bill.

Sections 2 and 3 maintain the current distinction between cargoes which have clear national defense connection and other government-generated cargoes. The distinction is an historical one. Nevertheless, in terms of the economic importance of the U.S.-flag merchant marine, all government-generated cargo is important to the strength of the merchant marine. The earnings from the carriage of all those cargoes will contribute to the readiness of the fleet for national emergency employment.

Therefore, the Subcommittee may wish to carefully weigh whether continuation of the distinctions is warranted or whether, in the interest of a stronger merchant marine, all directly government-generated and government-financed cargoes should be reserved for privately-owned United States flag vessels whenever they are available to carry at fair and reasonable rates for such vessels.

In this connection, we recommend that the current 100% U.S.-flag preference requirement imposed by Public Resolution 17 for cargoes generated by the Export-Import Bank, and the agreed 100% U.S.-Flag preference for foreign military sales administered by the Defense Security Assistance Agency, be retained and expressly incorporated into the bill.

Section 4 should be reconsidered because it could virtually eliminate preference for military sales programs to foreign governments by virtue of the fact that the U.S. Government usually pays less than 50 percent of the cost of the goods involved and federal funds are generally not used to pay the freight charges. The preference requirement should apply whenever any portion of the freight charges is financed by the Government, whether directly or indirectly.

Also, there are two categories of government-related cargo that are not presently moving under the cargo preference laws but which, in our opinion, should be: namely, foreign-to-foreign transport of cargo destined for sale in U.S. military PX, Navy Exchange or similar facilities throughout the world, and the U.S. Mail. S. 188 addresses the latter category and I will speak to it later in my statement.

One of the more common evasions of the present preference laws has been determination by government shipper agencies that so-called "non-appropriated fund activities" are not subject to those laws when the cargo is transported between one foreign port and another. The Department of Defense maintained that merchandise shipped by or to the Army and Air Force Exchange Service is not subject to the Military Cargo Preference Act of 1904 or the 50/50 Act when moving between foreign ports. As a result, cargoes formerly transported by U.S.-flag vessels are now going to foreign carriers. These and other evasions should be ended by express statutory language.

Items offered for sale by PX and Navy Exchange facilities are certainly an integral part of the overall military maintenance infrastructure, no less than food consumed in mess halls or supplies issued by the Quartermaster or Supply Corps. Accordingly, it would seem both logical and in keeping with the purpose of the bill to amend section 3 to include this category of cargo, whatever the port of origin. We suggest addition to the definitions in Section 7(a)(1) of an item (F) to include non-appropriated fund cargoes.

We also suggest clarification of section 4(b) so as to carefully set forth the Congressional intent of "equal access" by U.S. carriers to liner cargo in other than U.S. foreign commerce. The proliferation of cargo sharing regimes throughout the world requires clear understanding of the circumstances that will bar a waiver of up to 50 percent of the preference cargo. Foreign compliance with the UNCTAD Liner Code's cargo sharing arrangements, and numerous national regimes, could exclude U.S.-flag carriers from bilateral and cross trades or substantially restrict their participation in such trades. The law should direct that the administration of U.S. cargo preference laws not include the grant of waivers if any U.S.-flag carrier is excluded or restricted from carriage of cargo in a trade.

Sections 7(a)(3) (A) and (B) should be amended to remove the distinction between U.S.-flag liner vessels built in the U.S. and those built abroad. Non-subsidized U.S.-flag carriers are free to build vessels abroad at world competitive costs, and should not be penalized or distinguished as different from U.S.-flag subsidized carrier.

In light of the extensive economic legislative and operational progress that has been made in furtherance of intermodal transport, the bill should be amended to recognize the role of intermodalism in the ocean transportation system. It should also reflect the fact that the cost of inland transportation, as a legitimate element of through intermodal carriage, is part of that system. Administrators of the preference program ought not be allowed to evade utilization of U.S.-flag vessels operated by carriers offering a through intermodal service in competition with direct call all-water foreign-flag carriers. Therefore, we propose that section 7 be amended by adding a definition of "waterborne cargo" which would include within that term the land transportation within the United States of a through intermodal movement.

Mr. Chairman, we also have grave concern over the terminology in section 7 (b) of S. 1616 that United States-flag vessels must offer what the bill calls "competitive rates" in order for the preference to be applicable. It is the very fact that U.S.-flag rates frequently cannot be competitive with foreign-flag rates that creates the need for cargo preference programs.

The section 5(l) provision permitting use of foreign-flag vessels when "no United States-flag vessel is available at competitive rates" would render the bill ineffective even if the definitions in section 7(b) were adopted.

The test of the 50/50 Act, 46 U.S.C. 1241, is "available at fair and reasonable rates for United States-flag commercial vessels" and the test under the Military Cargo Preference Act of 1904, 10 U.S.C. 2631, includes the standard that the charges "may not be higher than the charges made for transporting like goods for private persons." A combination of these provisions would be equitable and realistic.

The proposed section 7(b)(2)(A) testing of rates against a ceiling established by conference rates would be inequitable. In foreign-to-foreign carriage the conferences are not likely to have U.S.-flag members, and in U.S. export trades temporary general cargo market conditions may have driven conference rates down or rate levels may be controlled by foreign-flag carriers.

Section 5(2) would permit temporary waivers of the preference requirements by Congress or the president in times of "emergency." We recommend that the waivers be authorized be granted by the President and only "during a national emergency" declared by the President or by concurrent resolution of Congress.

Turning to S. 188, a bill to reinstate the previously long-standing preference applicable to U.S. Mail, Sea-Land strongly supports passage of this legislation. A general requirement that United States surface mail be transported on U.S.-flag ships first appeared in law in 1920.[1] That requirement was continued in the Merchant Marine Act of 1928 [2] which also established a program of U.S.-flag lines assistance through awards of ocean mail service contracts.

The Merchant Marine Act of 1936 [3] established a new program of direct subsidy to U.S.-flag lines, but retained the requirement that U.S. mails be carried by U.S.-flag ships. The provisions of the 1920 and 1936 Acts remained in force until 1960, when Congress passed a complete revision of Title 39 of the U.S. Code on the Post Office Department. That postal Act, P.L. 86-682 [4] included a provision very similar to section 405(a) of the 1936 Merchant Marine Act.

In 1970, Congress again passed a complete revision of Title 39 creating the U.S. Postal Service.[5] It did not contain a provision comparable to the previous U.S.-flag preference. No explanation for this omission was provided in either the House or Senate Committee reports (S. Rpt. 91-912) (H. Rpt. 91-1104).

In May 1981, the Postal Service deleted the partial U.S.-flag preference in its contracting requirement without public notice until after it had been done. The change was distributed as a revision of the Postal Service contracting manual.

On the specific language of S. 188, we understand some objection exists to Section 405(b)(2) wherein it cites "a fair and reasonable profit." While we feel that retention of the provision would be reasonable, deletion of the rate test would not destroy the effectiveness of the amendment.

Section 405(d) of S. 188 bars discrimination in the carriage of mail by sea based upon differing dimensions of containers. This provision is necessary because in Postal Service Protest 77-5, April 15, 1977, the Postal Service ruled that it is not governed by the Container Standards Act, 41-U.S.C. 253(a); 10 U.S.C. 2305(a) by virtue of 39 U.S.C. 410(a). On July 6, 1983, in P.S. Protest No. 83-30, the Postal Service declined to modify that view. With certain very isolated exceptions, U.S. mail can be transported thousands of miles across oceans in larger containers and final delivery can be easily be accomplished, even at outdated foreign mail facilities, with no disruption to transit time. In this connection, a similar provision was contained in H.R. 7700 which passed the House of Representatives in the 95th Congress by the overwhelming margin of 384-11.

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[1] Section 24 of the Merchant Marine Act of 1920, 41 Stat. 998.

[2] 45 Stat. 689.

[3] 49 Stat. 1985.

[4] 74 Stat. 578.

[5] PL 91-375, 84 Stat. 719

It is important to note that subsection (C) requires competitive bidding on all routes with two or more common carriers. This adequately deals with the competitive environment for this important category of U.S. Government cargo. Restrictions on bid solicitations based on arbitrary container height and size specifications can only compromise this mandated competitive process.

Passage of this bill is long overdue and we commend the Subcommittee for its consideration. U.S. mail should sail on U.S. ships, just as U.S. mail now flies on U.S. aircraft and foreign origin mail is transported by foreign-flag ships. For the U.S. mail to move across the Atlantic Ocean on Eastern Bloc ships can hardly be regarded as being in the public interest. Yet that is what happens. In P.S. Protest No. 78-51, February 26, 1979, the Postal Service ruled (following the F.M.C.'s regulation which exempts mail carriage from its purview) that the "Controlled Carrier Act," the Ocean Shipping Act of 1978, Pub. Law 95-483, 46 U.S.C. 801 and 817, does not apply to the U.S. Mail.

It unfortunately now appears also necessary to require the Postal Service to apply fundamental fairness and reason to its procurement policy. The Postal Service not only refuses to recognize any obligation to acknowledge the importance of the U.S. Merchant Marine to our national interests, or the dangers presented to those interests by Soviet-Bloc carriers, it now fails to recognize the realities of common carrier service. This Subcommittee knows that ocean common carriers operate on advertised routes with scheduled calls and transit times designed to meet the needs of a broad shipping public.

Protests have been filed with the Postal Service in regard to eight pending solicitations for carriage of mail to European ports. The transit times demanded by the Postal Service were so unrealistically short that no carriers of any flag could meet them to three of those ports and American carriers were eliminated from the competition in most other instances. The response of the Contracting Officer was: "If a carrier wants the mail, it can by efficient management modify its schedules appropriately." * * * "This is actually the nature of the competitive game." Of course, in playing its games with fate of our Merchant Marine the Postal Service has not put forward any arguments in support of the arbitrary transit time requirements.

Finally, some aspects of S. 1624 merit attention. The bill deals mainly with bulk ocean transport and I will not comment in that regard. It also deals with tax aspects of U.S. shipbuilding, specifically Capital Construction Funds.

Title III of S. 1624 would authorize Capital Construction Funds for U.S. shipyards. We support that proposal just as we did in testimony before this Subcommittee in April on S. 1038. We also urge the Subcommittee to amend section 302 of Title III to improve the benefit of CCF's to U.S. shipyards. By redefining the category of U.S.-flag vessels eligible to make deposits of earnings into a CCF so as to include U.S.-flag, foreign-built ships, there would be a greater incentive for capital formation for investment in U.S.-flag ships required to be built in U.S. shipyards. In other words, if U.S.-flag, foreign-built ships were eligible to make deposits to a CCF there would be a larger pool of potential deposits.

While there continues to be a need to allow use of CCF withdrawals for U.S.-flag construction in foreign shipyards, U.S. shipyards should not object to an amendment to authorize deposits to CCF's U.S.-flag, foreign-built ships. It would be to their advantage. It certainly cannot be argued that it would harm any U.S. shipyard.

Section 103(a)(D) of Title I of S. 1624 would impose a more rigid and extensive "domestic content" rule for machinery components and other articles and components of the vessel, not an integral part of the hull or superstructure, than exists at present. This would be wrong! An approach opposite to this is what is needed to aid U.S. shipyards and reduce the delivered cost of their vessels. Present domestic content rules should be eliminated so as to permit reduced costs of U.S. construction and create an incentive to build ships in U.S. shipyards. Currently, there exists no incentive to build in U.S. yards due to high cost, time of construction and financing, compared with foreign building.

In summary, there will be added incentive for U.S. liner operators to modernize their fleets if sufficient revenues can be generated from a realistic cargo preference program to enhance their earnings base and if realistic other incentives, such as new tax benefits and improvements to capital construction funds are provided.

Mr. Chairman, I thank you for the opportunity to formally present these views of Sea-Land. We congratulate the Subcommittee on the concept of S. 188, S. 206 and S. 1616 which we fully agree with. Our suggestions should not be construed as opposition to the principal concepts or to the main thrust or content of the bills. We support adoption of meaningful and effective revisions to the cargo preference laws and are grateful to have had this chance to present specific recommendations on the bills that present such opportunities.

Senator **STEVENS**. Thank you.

Admiral Holloway.

Admiral **HOLLOWAY**. Thank you, Mr. Chairman.

Senator **STEVENS**. And you are accompanied by Albert May, your vice president of the Council of American-Flag Ship Operators.

Admiral **HOLLOWAY**. That is right, Mr. Chairman.

CASO wholeheartedly supports S. 188, S. 206, and S. 1616. We would, however, like to offer several minor suggestions for improvements in the bills. CASO takes no position with regard to S. 1624, since that bill relates to bulk and not liner cargoes.

At the outset I would like to emphasize that these bills supported by CASO deal only with Government-impelled cargoes. The U.S. Government, like any other shipper, has the right to select the vessels that will carry its cargo. Given our longstanding and increasing reliance upon commercial liner vessels for logistical support during overseas military operations, it is only commonsense for the Government to support these ships by booking its cargo with them in peacetime.

U.S.-flag preference on Government shipments is absolutely essential to the health of our liner fleet. It places our ships on a competitive parity with foreign-flag operators, who generally carry all or nearly all of their own government-impelled cargoes.

In addition, these cargoes act as seed cargo, making possible regularly scheduled sailings of U.S.-flag vessels on fixed routes to all parts of the world. In many areas, this would not be possible without cargo preference, because where U.S. Government cargo is moving it is frequently the majority of the outbound cargo in that trade.

Now let me briefly address each specific bill. S. 206. This bill is absolutely vital to assure orderly implementation of the cargo preference laws as intended by the Congress. CASO believes that S. 206, which would provide the Secretary of Transportation with the sole responsibility for determining and designating those programs which are properly subject to section 901, and the authority to issue regulations governing their administration, would correct the sort of problems that we have enumerated in detail in my lengthier prepared statement.

S. 188. CASO members have never understood why longstanding cargo reservation requirements for U.S. mail were eliminated during the 1970 reorganization of the Postal Service. We believe that section 901(b) of the Merchant Marine Act of 1936 should apply to mail, and that S. 188 can be effectively administered in that regard.

In the case of S. 1616, the consolidation and slight expansion of the cargo preference laws proposed in S. 1616 are constructive. In our statement we discuss several changes which we believe should be made in the bill, and I would like to emphasize two of these changes.

First, the existing 100-percent U.S.-flag preference for public resolution cargoes, which generally are those generated by the Export-Import Bank, and the 100-percent preference for foreign military sales administered through the Defense Security Assistance Agency, we recommend that they be retained and included in the bill.

Second, with the elimination of the construction differential subsidies, it will be essential, at least temporarily, that future liner ships be built overseas. The economic feasibility of these new ships in many cases will depend upon the availability of Government cargoes, because, as I have noted above, to many areas of the world where Government aid moves it is the principal cargo outbound from the United States.

Accordingly, we and all U.S.-flag liner operators support the elimination of the current 3-year waiting period before ships acquired abroad and reflagged United States can carry preference cargo.

S. 1624. This bill, as you well know, sir, is designed to promote increased ocean transportation of bulk commodities in U.S.-foreign commerce, and to strengthen the defense industrial base. As CASO represents only liner operators in the foreign commerce, we will defer comment on this bill to bulk carrier operators.

Mr. Chairman, we would be pleased to answer any questions that you or members of this committee might have for us.

[The statement follows:]

STATEMENT OF ADM. JAMES L. HOLLOWAY III, PRESIDENT, COUNCIL OF AMERICAN-FLAG SHIP OPERATORS

Good morning Mr. Chairman and members of the Committee. I am Admiral James L. Holloway III, U.S. Navy (Retired), President of the Council of American-Flag Ship Operators (CASO). Accompanying me today is Albert E. May, Esq., Executive Vice President and General Counsel of CASO. We are pleased to be here, on behalf of the members of CASO, to discuss with you S. 188, S. 206, S. 1616, and S. 1624. Our members own and operate a fleet of 159 general cargo, common carrier liner-type merchant ships. These vessels include container ships, combination ships, RO–ROs, breakbulk and barge-carriers. These vessels employ approximately 10,000 United States merchant seamen and serve approximately 1,000 ports on 6 continents in the carriage of our oceanborne trade.

Mr. Chairman, at the outset I must emphasize that CASO will be addressing only government-impelled cargoes which are or should be carried by U.S.-flag liner operators. There are two significant facts which must be borne in mind during deliberations on these issues. First, the United States government has, as does any other shipper, the right to choose ports and carriers of its preference for the shipment of government supported cargoes subject only to long-standing law which recognizes that the commerce and security of our nation requires an adequate and well-balanced American Merchant Marine and that, to support this, a certain portion of government supported cargoes should be carried on U.S.-flag vessels. Second, to our knowledge, most other major maritime nations route substantially all of their government supported cargoes on their national flag vessels.

S. 206

S. 206, introduced by Senator Inouye would increase the role of the Secretary of Transportation in administering Section 901 of the Merchant Marine Act, 1936. It is with Section 901, commonly referred to as Public Law 664, and its implementation, that most of the problems affecting liner operators arise. In 1954 when public law 664 was enacted, both Senate Report No. 1548 and House Report No. 80 stated that its coverage ". . . plugs existing loopholes . . ." and encompasses ". . . programs financed in any way by federal funds.". Public Law 664 was also intended to eliminate procurement and contracting procedures ". . . by which a high percentage of exports from this country and offshore purchases contracted for, financed, or furnished by the United States, *has been routed in foreign vessels in violation of the spirit if not the letter of existing cargo-preference legislation.*" (Emphasis added.)

At the time it was enacted, Public Law 664 did encompass all the federal programs which generated cargo. However, forms of federal aid have continued to evolve while the statute has remained unchanged. In addition, some federal agencies have found devices by which they could circumvent the application of Public Law 664 to their programs. As early as 1962, the Senate's Committee on Commerce in its report (No. 2286) on "Implementation of the Cargo Preference Laws by the Administrative Departments and Agencies" found that "All too often . . . at least several of the administrative departments (have attempted) . . . to evade the cargo preference (law) whenever the opportunity offered.". More recently, questions have arisen whether the provisions of Public Law 664 apply to:

Government Grant-In-Aid programs such as the Urban Mass Transportation Act of 1964, authorizing the Urban Mass Transportation Administration of DOT to provide financial assistance to several state and local transit bodies for the purchase of urban transit equipment;

Subcontractors of Department of Defense prime contractors;

Government cash transfer programs to foreign nations such as AID grants to Israel, Turkey, and at least seven other nations for unrestricted purchases of items;

The concessional sale of government-owned butter to New Zealand;

USDA's subsidized sale of wheat flour to Egypt;

The Commodity Credit Corporation's "Blended Credit" program; and,

Cargoes shipped with credit guarantees under the Foreign Military Sales program.

The members of CASO believe that ocean cargoes generated by such government funds and programs should properly be subject to the cargo preference requirements of Public Law 664. The problem, in our view, has been one of implementation. S. 206 would provide the Secretary of Transportation with sole responsibility for determining and designating those programs which are properly subject to Public Law 664 and the authority to issue regulations governing their administration. This, we would hope, should correct the sorts of problems we have mentioned.

We enthusiastically support S. 206.

S. 188

S. 188, also introduced by Senator Inouye is designed to "further the development and maintenance of an adequate and well-balanced American merchant marine by requiring that certain mail of the United States be carried on vessels of United States Registry.".

We have never really understood why, in 1970, during a reorganization of the Postal Service, cargo reservation requirements for U.S. mail were deleted. Section 101.(a) of the Act creating the Postal Service, states that "The United States Postal Service shall be operated as a basic and fundamental service provided to the people *by the Government of the United States,* authorized by the Constitution, created by Act of Congress, and supported by the people." (Emphasis added.) Subsequent judicial decisions have consistently held that the Postal Service is an agency of the United States. It seems to us that the provisions of Public Law 664 should clearly apply to ocean transportation arrangements made by the Postal Service. However, we believe that S. 188, which would provide for carriage by U.S.-flag under certain circumstances as was the case prior to 1970, would be preferable and more easily administered.

We fully support S. 188.

S. 1616

S. 1616, introduced by the Chairman and Senator Inouye is designed to ". . . consolidate, clarify, and to some extent enlarge the scope of existing cargo preference laws.". Upon introduction the Chairman noted, and it is extremely important that all who participate in and monitor these hearings continually bear in mind, that the proposed legislation concerns only government-impelled cargoes, and in no way affects the routing or carriage of commercial cargoes.

U.S.-flag preference for government-impelled cargoes is absolutely essential for liner operators. First, it puts them more nearly on competitive parity with foreign-flag liner operators who generally carry all or nearly all of their own government-impelled cargoes. Second, these cargoes act as "seed cargo" making possible the regularly scheduled sailings of U.S.-flag vessels on fixed routes in parts of the world where this would otherwise not be economically feasible. This is so because where U.S. government aid cargo is moving it is frequently the majority of the outbound cargo in the trade.

S. 1616 repeals the three preference statutes now in force which affect the carriage of government-impelled cargoes in our foreign trade, and is designed to incorporate their provisions into the one new statute. We will discuss each of the three below.

First, the bill repeals Section 2631 of Title 10 of the U.S. Code which provides that only U.S.-flag vessels may be used in the transportation of supplies bought for the military and that charges for the transportation of those supplies may not be higher then charges made for transporting like goods for private persons. In its place, the bill would provide that all wateborne cargo affecting the national security of the United States shall be transported in U.S.-flag vessels. While the implementation of existing law in this area has not, generally, been a problem for U.S.-flag liner operators, we support the proposed change and note that, among other things, it clarifies existing question as to the carriage of strategic petroleum reserve products and national defense stockpile materials.

Second, S. 1616 would repeal Section 1241-1 of Title 46 of the U.S. Code (Public Resolution 17). Public Resolution 17 refers specifically to loans made by any instrumentality of the government to foster the export of agricultural or other products from the U.S. It provides for a 100 percent U.S.-flag requirement with provisions for waivers under certain conditions. The only U.S. agency to which Public Resolution 17 now applies is the Export-Import Bank. Section 4.(a) of S. 1616, which requires 100 percent U.S.-flag carriage where there is indirect government involvement in cargoes not affecting the national security would, we understand, apply to all cargoes generated by the Eximbank. We are pleased to see that S. 1616 requires 100 percent U.S.-flag carriage unless a waiver has been granted by DOT. Under Public Resolution 17 general waivers are frequently granted to permit vessels of recipient nations to carry up to 50 percent of the ocean cargoes generated by Eximbank loans, provided that the U.S.-flag carriers do not experience discrimination in trade with the recipient nation. This waiver provision, coupled with the desire of other countries to participate in Eximbank cargoes, has been an important factor in enabling our government and our member companies to eliminate many discriminations against United States flag ships. We are concerned, however, that the language of Section 4.(a)(1), strictly construed, might provide an opportunity to circumvent the law. It could be interpreted to mean that if a $200 million project is, for example, financed by $90 million from the Eximbank and $110 million from outside sources, that the "50 per centum" test has not been met and no cargo preference applies. Thus interpreted, it would place U.S.-flag operators in a position worse then present.

Third, S. 1616 would repeal Section 1241(b) of Title 46 of the U.S. Code (again, commonly referred to as Public Law 664). We have outlined for you earlier, in our discussion of S. 206, the fact that most of the problems regarding cargo reservation for liner operators arise in the context of Public Law 664 and stated our view that the real problem is not the language of Public Law 664 but its implementation. Should S. 206 be enacted we do anticipate that many of these problems would be eliminated. However, we understand and appreciate your desire to avoid these and future controversaries by revising and restating the provisions of that statute. The Committee might want to consider merging the provisions of both bills.

The Chairman noted in his introductory statement to S. 1616 that while it is similar to H.R. 2692 it differs in several important respects. We find most of those differences salutary. However, one does present a serious problem to U.S.-flag liner operators. That is the deletion of a provision that would provide immediate eligibility for American-flag liner vessels constructed abroad for the carriage of government-impelled cargoes. The Department of Transportation, in a statement accompanying introduction of H.R. 3156 (the Administration's recent Promotional Program) noted that U.S.-flag vessels constructed or acquired abroad must not be denied immediate access to government-impelled cargoes if we are to have a strong U.S.-flag merchant marine. Failure to so provide would result in increasing the access to our government financed cargoes for foreign-flag vessels, surely an unintended result. Immediate access to these cargoes by liner operators who periodically must renew their fleets to remain competitive in service is absolutely essential.

There will likely be other provisions of S. 1616 which may be controversial and, while we do not now have specific amendatory proposals we would request the opportunity to work with your Committee and staff as this legislation progresses.

We support the objectives of S. 1616.

S. 1624

S. 1624 was introduced by Senator Trible and the Chairman. It is designed to promote increased ocean transportation of bulk commodities in the U.S. foreign commerce and to strengthen the defense industrial base. As CASO represents only liner operators in the foreign commerce, we will defer to those directly affected for comment on issues affecting solely bulk carriers.

Mr. Chairman this ends our prepared statement and we would be pleased at this time to attempt to answer any questions you or members of the committee might have.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS THERETO

Question. S. 188 would limit competition to U.S. carriers. Recently we saw a situation where two U.S.-carriers had enjoyed a virtual monopoly on bidding for certain contracts awarded by the military sealift command. A third carrier then came upon the scene and submitted a bid substantially lower than the other two carriers, and was awarded the MSC contract.

The next time the contract was put out for bid the first two carriers submitted bids which were substantially lower than their previous ones.

In other words, Uncle Sam had been the victim of a monopoly-type situation.

Wouldn't S. 188 permit the same type of situation to occur?

Answer. The question addresses issues of a competitive nature on which the view of CASO members may differ. Accordingly, we must leave direct response to them and take no position at this time.

Question. S. 188 prohibits the Postal Service from giving any preference to one U.S. carrier vis-a-vis another upon the basis of length, height, or width of cargo containers.

The Postal Service finds this objectionable on several grounds:

Carriers may offer container sizes larger than are needed thus holding up mail until capacity is reached, or forcing the Postal Service to pay for space not needed or used.

Some receiving postal administrations and foreign port receiving docks can handle only containers of specified sizes. Thus S. 188 could prevent the Postal Service from containerizing mail to these countries.

This restriction would interfere with fair competition between U.S.-flag carriers, by preventing competition based on meeting customer needs as to container size.

Would you please comment?

Answer. To minimize these possible problems, CASO members suggest that the Postal Service might solicit bids for containers under 32 feet in length and/or over 32 feet as the Military Sealift Command does. That seems to permit use of a small container (20 feet or 24 feet) rate and a large container (35 feet or 40 feet) rate while not expressing a preference for a specific length, height or width container. It works for the Military and we believe it would work for the Postal Service.

Question. UNCTAD Code provides a cargo reservation scheme of 40/40/20 for liner conferences. Even the Brussels package recognizes closed conferences and other anti-competitive devices—so there is no free trade. And the UNCTAD formula may eventually be extended to bulk trades so why should we not have restrictive practices—such as cargo reservation?

Answer. We believe the position of the members of CASO regarding cargo reservation was fully explained in our prepared statement.

Question. Some commodity interests have urged that cargo preference should only apply to U.S. imports. That way our exports would remain competitive in world markets.

If there were no cargo preference for exports, how would U.S. bulkers be assured of cargo on the outbound portion of a voyage?

Would you please comment.

Answer. The question addresses only bulk carriers. As stated previously, the members of CASO neither own nor operate bulk vessels and defer to those who do to address these issues.

Question. Some opponents of cargo reservation maintain that if national defense is dependent on U.S.-flag vessels, financing for construction and operation of these vessels should be paid out of the defense outlays and shared by all Americans.

Do you agree with this approach?

Answer. To the extent financing for construction and operation of U.S.-flag vessels has been assisted by our government it has been ". . . shared by all Americans."

The question of whether or not such funds should be included in the Defense Department's budget has been addressed by many Congresses. While we believe the present system (i.e. the providing of support through the Maritime Administration) has worked well, the question posed is one which can properly be answered only by the Congress.

Question. Many experts have expressed skepticism that the Administration's proposal to permit build foreign by ODS operators will result in any increased number of U.S.-flag ships in our foreign trades, or that it will result in increasing the percentage of our foreign commerce carried by U.S.-flags (now about 4 percent).

The reason for their skepticism stems from another Administration policy which gives ODS only for ships that are built to replace old ships under ODS contract. In other words, there is no expansion of the ODS program.

Would you please comment.

Answer. The Reagan Administration has, on a number of occasions, publicly stated a policy of not entering into new operating differential subsidy agreements and, in fact, a desire to terminate existing agreements with willing operators. While it is probably correct that the Administration's proposal to permit foreign acquisition of replacement vessels by ODS operators will not result in an increased number of U.S.-flag ships in our foreign trade, we certainly do anticipate that a replacement program will result in increasing the percentage of our foreign commerce carried by U.S.-flag liner operators. There are currently some 50 to 60 commercially obsolescent vessels in the fleet. While these would not be replaced on a one for one basis, we would anticipate that the fleet, as upgraded, would be far more productive and efficient than the vessels replaced and would permit U.S. operators to compete more effectively for liner cargoes.

Question. Is it accurate to say that the transportation cost premium that must be considered in weighing the merits of cargo reservation is the additional cost that would actually be seen by the purchasers of the commodity in question? And this cost is not the marginal cost per ton advanced by opponents of cargo reservation, but the marginal cost spread over all the trade in the affected commodity. In other words, shippers could not add the cost premium only to that portion of their business carried on U.S. vessels. Rather, they would increase the cost of all of their shipments to cover the additional cost of the reserved portion.

Answer. The question addresses commercial cargoes. CASO members do not support unilateral reservation of commercial liner cargoes and take no position on reservation of commercial bulk cargoes.

Question. Successive Administrations have publicly supported our cargo preference laws, and yet it seems not a year goes by when there is not at least one major instance where these laws have been evaded, or an inter-department conflict arisen.

For example, just a few years ago, the Urban Mass Transportation authority was responsible for the purchase of 400 buses constructed in Germany. Many of these buses were being delivered to the United States aboard Soviet-flag vessels until Congress raised the issue of our cargo preference laws.

Then there was the case of the sale of surplus butter to New Zealand through the Commodity Credit Corporation. The Department of Agriculture disagreed with MarAd, and refused to acknowledge that our cargo preference laws applied.

In response to my question at that time, Admiral Shear said he was "not completely satisfied" with the progress MarAd was making to assure that a "fair distribution of that cargo goes to U.S.-flag vessels".

More recently, GSA arranged for the purchase of 1.6 million tons of Bauxite from Jamaica. Although our cargo preference laws applied, and two U.S.-flag vessels tendered offers to carry the cargo, both were summarily rejected by GSA because of the unique and questionable delivery requirements imposed by that agency. All of that cargo was carried on foreign bottoms.

The Bauxite transaction was especially disconcerting because it involved the use of dry-bulk carriers. Although dry bulk cargoes comprise about 40 percent of our foreign trade, less than 2 percent of it moves on U.S. bottoms.

Early this year the Department of Agriculture entered into an agreement with Egypt whereby flour was purchased by Egypt from U.S. Millers at $155 a ton. The U.S. Government in turn provided the millers with grain in sufficient volume for them to make the sale at that price, including a profit.

The Department of Agriculture said our cargo preference laws did not apply; the Department of Transportation said they did. And there the matter stood. The Administration finally ruled that 50 percent of the wheat must go on U.S. ships, but it stopped short of saying that cargo preference laws applied.

Most recently, the Department of Transportation took the position that because the Jones Act applied to the shipment of oil from Alaska to the Strategic Petroleum Reserve (SPR), such shipments may not be counted towards the 50 percent U.S.-flag cargo preference share required of the importation of foreign oil for the SPR program.

The Department of Justice resolve the dispute in favor of the Department of Energy.

Under these circumstances, doesn't efficiency in government alone require legislation such as S. 206?

Answer. As detailed in our prepared statement, the answer of CASO members to this question is an unequivocal yes.

Senator **Trible**. Thank you, Admiral Holloway.

Mr. Chairman, our distinguished witnesses have completed their testimony.

Senator **Stevens**. Well, I apologize for jumping in and out. Unfortunately, we have other hearings going on at the same time.

You have a good suggestion about that PX cargo and I will look into that, not only here but in the other subcommittee that I am chairman of, and see if we cannot deal with that.

But I am a little concerned about the Postal Service question. I agree with you, you have all expressed a question about the Polish cargo. But let me put it this way: Have you ever explored the concept of sort of a buy American provision on the Postal Service cargo, as opposed to just an outright preference?

Mr. **Hiltzheimer**. I am not aware that we have, sir.

Senator **Stevens**. Some kind of a differential that gives a preference, but still keeps the competition, particularly in the areas where there is only one carrier, United States, and there is foreign competition. It just seems to me that the Postal Service has got a good position, but if they end up with a total monopoly they do not have any control over rates on that line if there is no other way to carry the cargo.

Mr. **Hiltzheimer**. Well, I would agree that if the Congress saw fit to mandate that the U.S. mail, sea mail, move by only American carriers, that there would have to be a provision to assure that the rates were reasonable.

Senator **Stevens**. A rate that is competitive, let us put it that way. I am not sure that it will ever be reasonable in comparison to subsidized carriers. You know, what is reasonable?

Mr. **Hiltzheimer**. That is a good point, sir. They are never reasonable in the eyes of a shipper, and they are often not reasonable in the eyes of the carrier.

I just was looking at a survey of 19 routes where the U.S. mail, a total of hundreds of trailerloads are now moving between the United States, Europe, and the Far East. And of the 19 I calculate—and this is an opinion, not necessarily a fact, but I think I know the economics of the business pretty well—that 14 of the current rates out of the 19 I would judge as being below the carrier's cost. And this is a mixture of both U.S.-flag and foreign-flag.

So you know, my hat is off to the post office for doing a good job of saving the U.S. taxpayer on the cost of moving mail.

Senator **Stevens**. Not taxpayers, Charlie; that is ratepayers, because we are not subsidizing, except for those small newspapers and agricultural bulletins and whatnot. There is not a subsidy on that now.

Mr. **Hiltzheimer**. But in our view, there has been a good bit of gameplaying and using excuses such as, "we do not want a 40-footer, we want a 20-footer," or "we do not want a 35-foot container, we want this." And "your transit time to that port is not as good as some other carrier."

Senator STEVENS. What about that comment about speed? They say that the problem as far as the Postal Service is to try to deliver the mail as quickly as possible, and they say that the U.S.-flag ships are slower.

Mr. HILTZHEIMER. Not having the specifics, I really couldn't comment on it. I think it is entirely possible that if the U.S. mail was going directly to an off-the-route port and the U.S. carriers maybe served it through a breakpoint and a feeder vessel, and some other foreign line maybe had a direct service, it is conceivable that there would be times that the service would be better by a foreign carrier.

But on the main volume routes, I would question that the foreigners have superior service to the Americans. But I don't have the specifics.

Senator STEVENS. Admiral, your testimony includes the comment that the problem with existing cargo preference legislation is not its substance but rather its implementation, in effect. That is interesting to me. Have you ever come up with a list of things that could be done under existing law that would ease some of the problems in the cargo preference area and not amount to a change in the law?

Admiral HOLLOWAY. Mr. Chairman, we are consistently and constantly encountering government agencies which are attempting to evade the law, so to speak, by finding loopholes in it, they find every excuse to move their cargo by foreign flag carrier rather than follow what we consider to be the intent of the U.S. law. We listed four or five of those examples in my statement.

I think that the problem is that everyone wants to get the lowest rate, and that is made a higher priority within some departments of the Government than adherence to the intent of cargo reservation and cargo preference.

Senator STEVENS. You can't blame them in a period of declining budgets. But I was just wondering if there wasn't something that we could do to try and mandate better implementation of existing law.

Admiral HOLLOWAY. If I may supply an answer to your question for the record, Mr. Chairman, I would like to.

Senator STEVENS. I would appreciate that.

Senator Trible, any questions?

Senator TRIBLE. No questions. Thank you, gentlemen, for being here. We benefit from your counsel.

Senator STEVENS. Thank you very much. We appreciate your support.

[The following information was subsequently received for the record:]

COUNCIL OF AMERICAN-FLAG SHIP OPERATORS,
Washington, D.C., October 27, 1983.

Hon. TED STEVENS,
Chairman, Merchant Marine Subcommittee, Senate Commerce Committee, Russell Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: During recent hearings on S. 188, S. 206, S. 1616 and S. 1624 you asked me ". . . if there wasn't something that we could do to try and mandate better implementation of existing (cargo preference) law."

I believe the answer to that question lies in our comments on S. 206 wherein we point out that it is with Section 901 of the Merchant Marine Act, 1936 and its implementation that most of the problems affecting liner operators arise. In 1954 when the Section was enacted, it was described as encompassing ". . . programs financed in any way by Federal funds." But over the years forms of federal aid programs have continued to evolve while the statute has remained unchanged. In addition, some federal agencies have found devices by which they could circumvent the application of Section 901 to their programs. CASO hopes that S. 206, which would provide the Secretary of Transportation with sole responsibility for determining and designating those programs which are properly subject to Section 901 and the authority to issue regulations governing their administration would correct the sort of problems enumerated in our statement.

Yours sincerely,

J. L. HOLLOWAY III, *President.*

Senator STEVENS. Mr. Frank Drozak, president of the maritime trades department of the AFL-CIO.

STATEMENT OF FRANK DROZAK, PRESIDENT, MARITIME TRADES DEPARTMENT, AFL-CIO

Mr. DROZAK. Thank you, Mr. Chairman, for the opportunity to express our opinion and views on these vitally important bills. We are pleased to have the opportunity to express our views on the wide-ranging issues covered by the legislation being considered.

On behalf of the maritime trades department, I would like to express our appreciation to the sponsors of the legislation now before the subcommittee. The reality of world shipping from foreign government subsidies, tax incentives, preferential financing, and cargo reservation laws to the below-cost rate cutting of state-controlled fleets, all present obstacles in the revitalization of the U.S.-flag fleet.

The proposed legislative remedies you will examine in these hearings are well crafted methods to overcome those obstacles. The Nation is well served when its elected officials recognize the world for what it is, rather than what free market theorists wish it to be.

The legislation you are considering will address maritime realities for several points. S. 188 will address the specific problems of U.S. mail cargo. These cargoes are comprised of the personal and business communications of the American people and the official communications of our Government.

To enhance the security of the mail, it should travel on U.S.-flag vessels whenever possible. The U.S. taxpayers should not be forced to routinely subsidize foreign fleets by shipping the mail on foreign vessels.

S. 206 and S. 1616 will require logical improvement in the application of Government-impelled cargo laws. Current enforcement authority is inadequate and widely diffused. Both of these bills together will help make the existing patchwork system into a cohesive process. When an efficient system is in place and the Secretary of Transportation is given the authority to manage it properly, the maritime industry will be more efficient as well.

The history of abuse and evasion of impelled cargo rules by various Federal agencies is well documented. The New Zealand butter and the Jamaican bauxite shipments and past problems associated with the filling of the strategic petroleum reserve are proof of the need for legislation which closes the loophole through which U.S. Government-impelled cargoes have been shipped on foreign-flag vessels.

Sometimes a loophole is not even necessary. A recent memorandum from the Maritime Administration to the Department of Agriculture reveals that despite the Department of Transportation's belief that blended credit shipments are covered by impelled cargo laws, the Department of Agriculture will be allowed to violate the law without consequences. Is any more proof of need for legislation like S. 1616 required?

It must be remembered that the recent subsidized wheat shipments to Egypt, which were covered by the cargo preference laws, were intended as a warning to foreign governments not to harm prospects for U.S. agricultural exports by unfairly subsidizing their own.

The current lack of enforcement of Government-impelled cargo laws has the opposite effect in the maritime sector. Enactment of S. 1616 will change that, however, by putting U.S. Government agencies and foreign-flag shipping interests on notice that nothing will be gained by attempting to avoid U.S.-impelled cargo statutes.

If the bulk sector was permitted its legitimate share of Government-impelled cargoes, it would be healthier and more competitive. When short-term business considerations dictate long-term transportation policies and permit violations of the law, national security is damaged and the integrity of the governing process is diminished.

The maritime trades department supports these bills fully and urges the subcommitte to take positive action on their passage.

Most of the testimony you are hearing today is directed toward S. 1624. That is only fitting, since the fate of S. 1624 will have the greatest effect on the future of the maritime industry. S. 1624 would greatly enhance national security while working to improve employment opportunities. Most than 18,000 jobs in the Nation's shipyards and more than 112,000 jobs in maritime-related industry sectors would be created. And equally important, at least 200,000 existing jobs would be maintained. Almost 9,000 shipboard jobs will be created as well.

Increased demand for American steel and coal will be spread over the life of the program and help maintain market stability, thus helping to avoid layoffs in mines and plant closures. Studies conducted for the Maritime Administration reveal that for every dollar spent in the shipbuilding sector at least another 70 cents is generated in the national economy.

Without passage of S. 1624, the massive shipyard layoffs which will soon occur will mean certain unemployment for tens of thousands of workers. As you know, we live in a time when the unemployment rate is so bad that the decline of a few tenths of a percent is hailed as a turnaround. Can the Nation afford to erase that fragile optimism and all that it means to the economy's recovery by adding tens of thousands to the unemployed rolls through the abandonment of the Nation's shipyards? Something must be done to prevent the collapse of this essential industry and the loss of the U.S.-flag fleet.

S. 1624 mandates a 24-percent reduction in construction and operating costs. Maritime labor is working actively to assure that those cost reductions will be achieved. The Seafarers International Union, in conjunction with the Marine Engineers Beneficiary Association, district 2, has pledged to reduce manning levels to the most efficient number of crews for each ship. We have put together a new contract, entered into the record on the House side, that would reduce manning costs by $1,358 per day, or to put it another way, a 21.1-percent drop.

There is ample recent precedent for the kind of common effort required to rebuild the Nation's maritime sector. When confronted by the need to rebuild our Nation's national roads network, wide public support developed for the 5-cent-a-gallon gasoline tax to pay the cost. Americans from all walks of life saw it as a necessary investment in the Nation's future.

S. 1624 is also a sound investment in the future. The cost involved is far less than the amount to be raised from the 5-cent-a-gallon tax. It makes no sense for a nation so dependent on oceanborne commerce to be equipped with a transportation network that stops at the water's edge. The provision in S. 1624 which provides a tax incentive to those who incur higher costs by using U.S. flagships is an appropriate device to bring the cost and benefits of the legislation quickly into balance. The tax credit will reduce Treasury revenues by increasingly smaller amounts as the U.S.-flag fleet becomes more competitive through reduced operating and building costs.

As the price differential between American and foreign costs become smaller, the amount of Treasury revenues deferred will be less as well.

Also, the tax credit will be partially offset by the overall revenue generated from passage of 1624. However, since passage of 1624 may hinge on a debate over the cost, we urge you to look at the turmoil in the world today. Ask yourselves, can the Nation afford not to pay those costs? Twice in the last decade, major legislative efforts were made to provide national security in the transport of bulk cargo. Twice opponents successfully distorted the cost issue and the efforts were defeated.

The problems, however, remain. Today they have grown so serious they can no longer be camouflaged by overblown cost scares. The Falklands crisis, the war in Chad, Lebanon, and Central America and the recent Korean Airline tragedy should teach us one thing. Today's black water is tomorrow's flash point.

As a great power, we should be ready for any sealift situation. Sadly, we are not. In 1973, war suddenly erupted in the Middle East and the United States was called upon to resupply a valuable ally. Airlifts fulfilled its short response role. It was stretched to the maximum, however, delivering only one tank to the combat zone. By contrast, the ship to the dock delivered more military cargo than the entire airlift effort.

Once again, the Nation has a need to resupply a military force in the Middle East. Once again, airlift efforts are hampered by problems of landing rights. Despite the presence of the NATO members in the peacekeeping force, two other NATO countries have denied the United States landing rights for the current resupply airlift. Once again, sealift is the most reliable method of supply.

One year ago, no one could have predicted that U.S. sealift assets would be needed in so many farflung locations. The search and salvage efforts of the Korean Airlines, the military exercises in Central America, resupply of a small unit of marines in Lebanon and simply routine requirements have almost overextended our capacity. Can the Nation rest assured that developments in the Philippines, the Persian Gulf, the Caribbean, or the Middle East will not tax them further?

It is imperative therefore that any discussions of the cost must be heard against the calmer of the unstudied wars. S. 1624 represents a rare second chance to learn from the lessons of history. We urge this subcommittee and the entire Senate to recognize this opportunity and pass 1624 without delay.

Mr. Chairman, I would like to enter the rest of my statement into the record.

Senator Stevens. Yes. We will put the whole statement in the record and I appreciate your courtesy in appearing to present that statement.

Do you have any questions, Senator? Please proceed.

Senator Trible. Thank you, Mr. Chairman.

First of all, Mr. Drozak, let me say how much we appreciate your being here today. I understand that your union is holding a meeting in Florida and that you have flown here specifically for the purpose of testifying.

Mr. Drozak. That is correct; yes.

Senator Stevens. We thank you for that.

Mr. Drozak. The sunshine is beautiful down there. A little windy.

Senator Trible. We appreciate that report.

Senator Stevens. We could have held the hearing in Anchorage, you know.

Mr. Drozak. In the summertime.

Senator Trible. Mr. Drozak, your organization has completed an economic analysis of the consequences of this measure. I am told that you testified before the House of Representatives that your economic analysis would suggest an increase for grain of 0.7 percent, seven-tenths of 1 percent. The Center for Naval Analyses projects a 1.04-percent increase for grain that might flow as a result of the House bill.

This bill obviously is vastly different than the House-passed bill, but I want to underscore for the record the fact that you and other very responsible organizations have taken a hard look at the cost consequences and have predicted very moderate increases, if increases do in fact take place.

And I think your analysis and that of the Center for Naval Analyses, which is the Navy's thinktank and has no special interest at stake here, calls into question some of the wild projections that we have heard about sharply higher prices for commodities if this bill passes.

One other point I would like to make to just flesh out your testimony. Some of these worst case projections I think are based on the experience with the Public Law 480 program. And in your testimony you underscore why that's a different kind of experience.

But suffice it to say that that experience is based in the main on a different kind of economic model. Moreover, it is based on 30- and 40-year-old American ships.

Mr. DROZAK. That is correct.

Senator TRIBLE. An old ship with a 40-plus man crew and inefficient propulsion is obviously going to be more expensive than the kinds of ships that would be built and manned today in order to fulfill the opportunities that would flow from this kind of legislation.

To that end, in your testimony you point out the recent experience with the ship, *Phoenix,* the new U.S. ship with a crew of 24, that recently hauled grain from Seattle to Egypt for $54 a ton.

You have also set forth in your testimony before the House and here the steps that the unions are taking to increase productivity and to assure that our maritime is more competitive in the world market. And that all bears on this question as well.

Mr. DROZAK. That is correct.

Senator, if I may just make one comment on that whole thing, I guess I have traveled all over this United States and I have been in every form of meeting, which addressed in full or part the revitalization of this maritime industry. And believe me, sir, I have not heard anyone say a U.S.-flag fleet was unnecessary. This includes statements from some of our industries' most vocal critics, including Congresswoman Virginia Smith of Nebraska. They believe we need it and it is necessary to have it. But no one wants to pay for that maritime industry, whatever the differential may be.

And I believe that the analysis and studies, both the industries' and the Navy's, have arrived at the same conclusion that there will be a small cost. But when you spread it over the period of the time that we are talking about, you won't even see it. And for that I think your proposal relative to the tax incentive or tax relief, or whatever we may want to call it, could be the difference. And if there was found to be a difference, then what would the opposition have to say then about the issue?

I leave that as a thought and a comment.

Senator STEVENS. Thank you. Thank you very much for coming.

Mr. DROZAK. Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF FRANK DROZAK, PRESIDENT, MARITIME TRADES DEPARTMENT, AFL-CIO

Mr. Chairman and Members of the Subcommittee, my name is Frank Drozak. I am President of the Maritime Trades Department, AFL-CIO, representing forty-three unions comprised of eight and one-half million workers in allied trades.

We are pleased to have this opportunity to express our views on the wide ranging issues covered by the legislation being considered. On behalf of the Maritime Trades Department, I would like to express our appreciation to sponsors of the legislation now before the Subcommittee. The realities of world shipping, from foreign government subsidies, tax incentives, preferential financing and cargo reservation laws, to the below-cost rate cutting of state controlled fleets, all present formidable obstacles to the revitalization of the U.S.-flag fleet. The proposed legislative remedies you will examine in these hearings, are well crafted methods to overcome those obstacles. The Nation is well served when its elected officials recognize the world for what it is, rather than what free market theorist wish it would be.

The U.S.-flag fleet is an essential asset for a healthy economy and a strong national defense. Arguments to the contrary often emphasize short-term costs rather than long-term national security. We are sensitive to cost considerations, but we urge that all the costs be measured and not just those which are registered in the business ledgers of interested parties. We must attempt to calculate the long-term costs to the Nation surrounding the wholesale abandonment of an essential industry. When those factors are weighed in the balance, we believe the case for active public and private sector support for Nation's vanishing merchant marine is indisputable.

The shrinking of the United States merchant fleet has been particularly disastrous for the liquid- and dry-bulk portions of the fleet. In 1950, the United States carried 42 percent of its foreign bulk commerce in U.S.-flag vessels. The total now hovers around four percent, with the liquid-bulk amount under four percent and the dry-bulk amount down below two percent. As recently as 1970, our U.S.-flag bulk fleet engaged in international commerce consisted of 81 vessels. Today, that fleet has shrunk below 40 ships. Between June, 1980 and July, 1981, there were four times more Soviet dry-bulk vessels carrying cargo to and from the United States than there were U.S.-flag dry-bulk vessels.

S. 1616: THE GOVERNMENT IMPELLED CARGO ACT OF 1983

The Maritime Trades Department believes that, with minor exception, S. 1616 is an effective solution to the problems surrounding the carriage of government-impelled cargo. The Reagan Administration, in advocating legislation to alter the regulatory environment in the shipping industry, justified the proposal by citing the need to remove confusion and contradictory jurisdictional problems. It is unfortunate that the same logic is not being applied in support of S. 1616. As you are well aware, most federal agencies, other than the Department of Defense (DOD), have little or no understanding of maritime issues, or of the essential contribution the merchant marine makes to our Nation's security. Those agencies often deal with other sectors of the economy and will yield to political pressure to evade the law, if they may act with impunity.

The history of abuse and evasion of impelled cargo rules by various federal agencies is well documented. The New Zealand butter and Jamaican bauxite shipments and past problems associated with the filling of the Strategic Petroleum Reserve, are proof of the legislation which closes the loopholes through which U.S. government-impelled cargoes have been shipped on foreign-flag vessels. Sometimes a loophole is not even necessary. A recent memorandum from the Maritime Administration to the Department of Agriculture reveals that despite the Department of Transportation's belief that blended-credit shipments are covered by impelled cargo laws, the Department of Agriculture will be allowed to violate the law without consequence. Is any more proof of need for legislation like S. 1616 required? It must be remembered, that the recent subsidized wheat shipments to Egypt (which were covered by cargo preference laws) were intended as a warning to foreign governments not to harm prospects for U.S. agricultural exports, by unfairly subsidizing their own. The current lack of enforcement of government-impelled cargo laws has the opposite effect in the maritime sector. Enactment of S. 1616 will change that however, by putting U.S. government agencies and foreign-flag shipping interests on notice, that nothing will be gained by attempts to avoid U.S.-impelled cargo statutes. If the bulk sector was permitted its legitimate share of government-impelled cargoes, it would be healthier and more competitive. When short-term business considerations dictate long-term transportation policies and permit violations of the law, national security is damaged and the integrity of the governing process is diminished.

The one reservation the Maritime Trades Department has concerning this bill is the provision in section 6 that requires U.S. vessels to be less than fifteen years old or substantially rebuilt in the last five years. To the extent that such a provision would remove unsafe vessels from the seas, we support it. Caution should be exercised however, because owners who have invested in the maintenance and refurbishing of vessels more than five years ago, should not be denied carriage of S. 1616 cargoes if those vessels are still seaworthy. Therefore, we suggest a waiver provision in order to insure that vessels are judged on a case-by-case basis. In order to keep the maximum number of safe vessels active in the trades.

S. 206: LEGISLATION TO INCREASE THE ROLE OF THE SECRETARY OF TRANSPORTATION IN ADMINISTERING SECTION 901 OF THE MERCHANT MARINE ACT OF 1936

The intent of S. 206 is certainly commendable, and should in theory, support the goals of existing and proposed government-impelled cargo laws. As we can see from the blended-credit problem, the Secretary of Transportation is not always the dedicated source of support for the maritime industry that common sense dictates. We do however, support efforts to consolidate jurisdictional control of impelled-cargo shipments. In this regard, at least S. 206 provides a useful function. However, when the inevitable challenge arises, the Secretary of Transportation will have no enforcement mechanism. Therefore, we support S. 206 and urge that S. 206 and S. 1616 be considered as a package in order to insure adequate enforcement of government-impelled cargo laws. With the enforcement authority, which would result from such a package, the Secretary of Transportation could insure compliance with the law and avoid the debilitating inter-agency struggles that unfortunately occur so frequently.

S. 188: LEGISLATION TO REQUIRE THAT ALL U.S. MAIL SHIPPED OVERSEAS TO BE CARRIED ON AMERICAN VESSELS

The Maritime Trades Department wishes to voice its complete support for this measure. Although U.S. mail cargoes are not large in tonnage terms, S. 188 is a move in the right direction and can only benefit the U.S.-flag fleet. These cargoes are comprised of the personal and business communications of the American people and the official communication of our government. To enhance the security of the mail, it should travel on U.S.-flag vessels whenever possible. There is however ample flexibility within the bill to provide transportation alternatives when U.S.-flag vessels are unavailable. No one need be concerned that the requirement for U.S.-flag carriage would delay the mails at any time. In the past, some postal cargoes have traveled in Soviet-bloc vessels. Paying U.S. taxpayer dollars to the worst offenders among the unfairly competitive government-owned fleets and assisting them in their search for hard currency, is clearly unacceptable. Requiring U.S.-flag carriage, when available, guarantees security of the mails and insures that American taxpayers do not contribute directly to hostile Soviet-bloc economies.

S. 1624: THE MERCHANT MARINE REVITALIZATION ACT OF 1983

We believe that the most comprehensive, reasonable and effective solution to our nation's maritime problems can be found in S. 1624. This legislation requires that a portion of bulk imports and exports be carried in U.S.-built, U.S.-flag vessels. In a logical and stable pattern of growth, cargo reservation levels will begin at five percent one year after enactment, increasing by one percent a year until a twenty percent carriage level is reached in the sixteenth year of the bill. A sensible reservation policy of this kind will generate cargo and therefore demand for the services of American shipyards. Estimates on the number of vessels which would be built under S. 1624 range from 168 to over 300. The revitalized shipping and shipbuilding markets which would be developed are not gifts to the U.S. maritime industry. The twenty percent cost reductions in ship construction and operating costs mandated by S. 1624 will act to reduce inflationary pressures over an extended period.

Maritime labor is working actively to ensure those cost reductions will be achieved. The Seafarer's International Union (SIU), in conjunction with the Marine Engineers Beneficial Association, District 2, has pledged to reduce manning levels to the most efficient number of crew for each ship. We have put together a new bulk contract that would reduce manning costs by $1,358 per day—a 21.1 percent drop. We are already experimenting with a three-crew, two-ship concept that calls for three crews to rotate between two ships on a regular basis. At any given time, two crews would be operating two ships, while the third crew is off the ship. This change from the four-crew, two-ship operation reduces manning costs substantially.

This concept also means that crews would be spending more time on their ships, while gaining more experience, which in turn will help the crews to operate and maintain them more efficiently and effectively. In this and other ways, we are doing our part to make our merchant marine as competitive as possible.

Currently, bulk ships operate infrequently because of a lack of cargo, and therefore must charge a high enough rate for each trip to cover expenses when the ship is not being used. Under S. 1624, these ships will be used much more often, allowing them to spread their operating cost over a larger number of cargoes, thereby reducing that portion of their rates for each shipment. I would like to add, however, that newer technology—even without S. 1624—reduced costs, allows for dramatic rate reductions. We would cite, with pride, the fact that the SIU-contracted vessel, JADE PHOENIX, recently quoted a rate of $54 to $59 per ton on a P.L. 480 grain shipment from the U.S. West Coast to Egypt. This compares with the $100 to $140 a ton rates on recent smaller vessels.

You have heard, time and time again, the famous $49 per ton rate differential on some shipments of P.L. 480 cargo. Other sources predict even higher rate increases because of S. 1624. We have seen this game before. Back in 1977, some of these same interests claimed that a modest oil cargo policy would cause terrible damage. Astronomical price increase figures were being thrown around until the release of an independent General Accounting Office (GAO) study. The GAO found that the increase would range from little over one-tenth of a cent to less than a quarter of a cent per gallon of gas.

To those who would attack the alleged high costs of American seafaring labor. I would say: This is not the detail that will make the critical difference in whether or not this program is successful. Wages as a percentage of U.S.-vessel operations are not the factor that they once were. In 1971, for example, crew costs represented 61 percent of operating costs on a 16,000 deadweight-ton vessel. Today that percentage is down to 46 percent. It would be substantially lower still on a larger, technologically-advanced ship. In reality, factoring in the new SIU-bulk contract, the evidence suggests that on such a new vessel U.S.-crew costs as a percentage of total operating costs might nearly equal foreign-crew costs as a percentage of foreign-operating cost. It is, of course, impossible to compete with foreign-wage rates. This, however is true of any American wage—whether it be that of a laborer, lawyer, corporation president, doctor, industry analyst, or a political leader.

On the ship construction side, the major cost reductions will come from the series construction of numerous ships of the same design, rather than building one ship at a time. For instance, the construction is one shipyard of ten ships of the same design would allow equipment and enginering costs to be spread over ten ships, rather than being charged to just one ship. More constructon would also mean that materials could be ordered in larger amounts, which often results in a quantity discount. Additionally, the long term increase in ship construction would give shipyards the financial incentive and resources to invest in the most modern, efficient equipment available. I am confident that with all of the new business provided by the passage of S. 1624, shipyards will have no problem becoming efficient enough to reduce their construction costs.

S. 1624 will greatly enhance national security while working to improve employment opportunities. More than 18,000 jobs in the Nation's shipyards and more than 112,000 jobs in maritime related industrial sectors would be created and, equally important, at least 200,000 existing jobs would be maintained. Almost 9,000 shipboard jobs will be created as well. Increased demand for American steel and coal will be spread over the life of the program and help to maintain market stability, thus helping to avoid layoffs, mine, and plant closures. Studies conducted for the Maritime Administration reveal that for every dollar spent in the shipbuilding sector, at least another 70 cents is generated in the national economy. Economic stimulus of this kind will help provide the catalyst needed to modernize the Nation's aging, heavy industrial base in order to compete with newer industrial sectors in other countries.

S. 1624 can also be effective as a device to develop high technologies in this country. A familiar lament from the high-tech sector is the quite legitimate charge that the U.S. economy often bears the burden of initial research and development costs and makes heavy financial commitments to marketing efforts, only to have a foreign competitor use the original design to build an improved second generation item, at much less cost, and then compete advantageously against the American original.

In the past few years, most of the major developments in ship design and maritime technologies have occurred in foreign countries. The Japanese have successfully developed and utilized computer controlled sail technology to lower fuel consumption and have recently developed a submersible tanker capable of 100 knot speeds and propelled by electromagnetic devices. Finland is providing the Soviet Union with the most recent design in ice strengthened, polar vessels of various configurations. Italy is building state of the art coal-fired colliers. Advanced electronic and microcomputer technology is increasingly common in the design and operation of vessels, in cargo handling and in the "white collar" end of shipping management. With so much advanced maritime technology available, the United States has a unique opportunity to profit from the benefits of technology transfer. The Nation will be able to "piggy back" on the costly research and development costs borne by others, and rejuvenate an essential national security asset at the same time. Shall

American high-tech industries fill that growing demand or will we abdicate our responsibility and allow foreign competitors to benefit from our default?

Recent official statements reveal that problems in our service sector are contributing to an ominous current account deficit. Relying on foreign-flag shipping services will only make the matter worse. Of the $8 billion worth of shipping services in the 1980 balance of payments, the United States was $2.8 billion in deficit. By contrast, revenues earned by the U.S.-flag fleet would circulate in our economy and not finance foreign competitors.

COAL EXPORTS

This country has invested a great deal of money in projects to improve and expand the coal transportation infrastructure. Allowing, the system to remain uncompleted is certain folly. An exported oriented system that stops at the waters edge means that transportation security stops there also. Such a deficiency could have a seriously adverse impact on the future of coal exports.

A recent study by the Maritime Administration looked at the possible increase in freight rates because of a reserved cargo policy. The authors based their study on the shipment of coal from Hampton Roads, Virginia and Rotterdam, Holland. The major assumption of the study was that the coal would travel on a modern, efficient collier of the type that could be built under the new law. Averaging the increase in freight rates for twenty percent of the coal shipped, since the bill would only apply to that percentage, over the total amount of coal shipped, it was concluded that freight rates would increase only 78 cents per long ton of coal. That works out to only a 1.2 percent increase in the freight rate percentage of the landed price of coal, when 20 percent of the coal is shipped on American vessels. The increase will be even smaller in the beginning years of the bill because the required percentage will be much smaller.

Coal producers have a rather limited view of U.S. coal competitiveness. In testimony before the House Merchant Marine Subcommittee, a coal industry spokesperson claimed that if European and Japanese importers determine that American coal is too expensive, they will turn to more unreliable energy sources (OPEC or the Soviet bloc) and that such action would "contribute to more economic and political instability".

Approaching the issue from that perspective avoids a discussion of the real source of demand for U.S. coal. In most cases U.S. domestic extraction and transportation costs exceed those of our major competitors, South Africa, Australia and Poland. How then is there still a substantial demand for U.S. coal? The demand is generated by the need of other nations to diversify their energy sources and the image of the United States as a reliable supplier. The Department of Energy, in a recent report on the furture of coal exports, determined that the competitive advantages enjoyed by U.S. producers were based on the perceptions of foreign importers that the United States was a "cooperative trading partner" and its market represents "securities and reliability of supply".

What lies ahead for world coal markets and suppliers? The People's Republic of China has some of the world's most extensive coal reserves. Recently, the "Journal of Commerce" reported that the Leberian Shipowners Council had initial discussions with the Chinese government concerning a mutual program to develop Chinese government concerning a mutual program to develop Chinese coal reserves, improve domestic waterways, shipyards and ports, and, also to ship that coal in Chinese-built, and Chinese-crewed vessels, flying flags of convenience. When that happens, the People's Republic of Chian will have an "Effective Control Fleet", the likes of which U.S. defense planners never dreamed. There is ample historic precedent for People's Republic of China crews commandeering vessels owned and built by others. To date, the People's Republic of China is filling more than 400 billets on FOC's and the trend is upward.

What will happen in the next decade to the U.S. image as a "reliable supplier" when the coal consuming nations look at a world where the most efficient facilities to build and repair specialized coal vessels are in the People's Republic of China and Soviet-bloc countries and the majority of the world's coal colliers fly foreign flags? How will the government at the federal, state and local levels, and much of the private sector, pay for expensive coal terminal developments if we pursue an anti-maritime policy which undercuts our competitive advantage? Chinese source, Chinese transported coal will have an overwhelming advantage should doubts arise about the reliability of U.S. supply.

The wisdom in having a healthy U.S.-flag fleet in order to bolster our image as a reliable supplier cannot be ignored. The vessels, personnel and service trade revenues that will be developed by enactment of S. 1624, can only enhance the Nation's reliability as a supplier. The loading and handling technology, built into vessels constructed under S. 1624, will be closely coordinated with U.S. port facilities and will mesh efficiently with the existing or proposed coal transport infrastructure. Able to draw upon the services of a viable American fleet, the Nation's coal export mechanism will finally have all its parts and be able to function effectively.

PETROLEUM IMPORTS

Among the most vocal critics of S. 1624 are representatives of the U.S.-owned petroleum industry. Many comments from the petroleum sector are directed at diminishing the commercial and national defense value of the U.S. fleet that would develop from S. 1624.

A favorite ploy of the petroleum industry is to raise fears of an avalanche of protectionist retaliation from other countries. The truth is, at least 68 countries have enacted or are considering legislation reserving some portion of their national cargoes to their flag fleets. That list includes most of the oil producing nations. The cargo reservation provisions in S. 1624 are an attempt to catch up with reality, a reality American oil firms are quite familiar with but choose not to discuss. That list of 68 nations will grow longer, and foreign cargo preference policies bolder, if the world perceives that the U.S. Congress will not act forcefully on behalf of our national interest.

You will also be told that the additional tankers that will be built by the passage of S. 1624 are not needed due to current excess tonnage. To determine the value of such statement, the nature of the excess tonnage must be examined. In order to do that properly, some background is in order. During the last decade, several of the opponents of S. 1624 proclaimed "supertankers" to be the bedrock of the transportation security that our country needed. In a publication hailing the benefits of very large and ultra large crude carriers, (VLCC/ULCC), the American Petroleum Institute said: "*Large* efficient tankers delivering essential petroleum imports into the United States *are a necessity.*" (Emphasis added.)

Yet today we find that these "necessities" comprise 62% of the laid up tonnage in the world. They are also being scrapped in record numbers with 56 scrapped in 1982 and 42 as of August 1983. The noted weekly journal, The Economist of London, described the tanker situation of the major oil firms when it stated: "Until recently, oil companies who paid $100m–150m for supertankers in the 1970s have been loth to admit their mistakes by taking the losses from scrapping their biggest ships. But with little hope of selling them, and rising costs for keeping them the biggest ships are likely to end up in the knackers' yard."

Recently, a South Korean shipyard purchased, for scrapping purposes a supertanker of more than 555,000 deadweight ton, for a mere $8 million. Six years ago the same vessel cost $120 million to build. It is apparent that the consequences of such colossal business mistakes are an important source of opposition to S. 1624 and also why foreign yards are so cost competitive. When foreign yards can buy raw materials for six to twelve vessels for less than ten cents on the dollar, there is little wonder.

The Navy believes, tankers up to 80,000 deadweight tons have national defense utility. The Center for Navy Analysis, [illegible] a review of the defense utility of vessels built under the Competitive Shipping and Shipbuilding Act of 1983, concluded that at least 12 vessels in this category would be constructed. In the near term, tanker requirements of S. 1624 could be met to some extent by existing Jones Act tankers, which would assist in keeping costs down and providing work for this essential component of our fleet. However, Jones Act tankers are expected to disappear at a rate of 300,000 deadweight tons per year and in any event will always be needed for domestic trades.

In addition, much evidence exists to indicate that the mix of militarily useful product tankers will be higher than has been suggested. An examination of the industrial development plans of oil producing nations, shows that *they* will impose the requirement on the United States. Mexico for instance, has doubled its refining capacity in recent years, adding an additional 300,000 barrel per day capacity this year, and intends to continue expansion. Venezuela has embarked on a $5 billion expansion plan. The trend is growing in the Middle East as well. Writing in 1982, on the future ownership of product tankers, the senior economic adviser to the Oil Ministry of Kuwait said:

"Total reliance on the tanker fleets of foreign nations to transport oil exports can be commercially and politically inhibiting."

"The Arab oil producers in North Africa and in the Gulf have firmed up their projects to build export refineries upstream, reversing a refining trend which prevailed since World War II . . . *consumers are expected to import a larger portion of what they use as refined products.*"

"*The new refining trend is expected to give a strong boost to the acquisition of products tankers,* particularly as large numbers of those now in the various fleets are fully depreciated, and the new facilities would require a new generation of such vessels to haul petroleum products to a diverse number of markets. *In fact, two Arab tanker owners—have already commenced a policy of products tanker acquisition.*" (Emphasis added.)

Since the Nation may have no choice but to buy an increased amount of refined products, the fleet constructed under S. 1624 would reflect that mix. It should be remembered at all times that product tankers are what the military fears will be in shortage.

Critics also ignore the support for cargo reservation voiced by DOD officials who recognize not only the serious danger of an inadequate U.S.-flag fleet, but also the national promotional policies of those nations with growing or (like the Soviet Union) existing, militarily useful fleets. George Sawyer, the former Assistant Secretary of the Navy for Shipbuilding and Logistics, told the House Armed Services Committee, Seapower Subcommittee on April 5, 1983:

"It is consistent with the trends worldwide and provides necessary protection to a vitally needed element of seapower. It still allows free market competition within the domestic industry as a whole. In short, cargo preference is realistic, is relatively simple to implement and can promote free competition commercially. It allows industry to compete while offering economic burden sharing for protection."

Of the 71 raw materials that the Department of Defense has called critical to maintaining industrial security, 68 are imported. The Office of the Chief of Naval Operations further examined this list, and found 26 commodities that are considered essential imports. More than 85 percent of the total demand of seven of those commodities is imported, and we import more than 50 percent of another six commodities.

The Federal Emergency Management Agency has established minimum import goals for the strategic commodities necessary for our economy and national defense efforts. It has been determined that 59 dry-bulk vessels averaging 22,500 deadweight tons would be required to meet those goals. In a wartime situation, the requirement would increase to 84 dry-bulk vessels of 22,500 deadweight tons. Currently, flag-of-convenience and communist nations carry 38 percent of all essential imports for the American economy while the U.S.-flag fleet carries only two percent. S. 1624 will insure that the percentage will rise gradually to a more secure twenty percent, carried mostly in geared vessels of militarily useful sizes.

Also, nothing is said by critics of the potential for the inclusion of national defense features on S. 1624 tankers. There is strong support from the Department of Defense for such a policy. Recently, Paul J. Hyman, Director for Transportation and Distribution Policy for the Secretary of Defense, told the Institute on Foreign Transportation and Port Operations that:

"It is our objective to encourage the ability of merchant ships to operate in support of national defense missions. For example, *American tankers should have refueling points for bunkering navy ships at sea. That is a feature that should be installed at government expense. There are other defense features which should be installed on U.S.-flag ships.* We should improve the communications gear, provide additional generator capacity, provide highline transfer equipment. All of this would increase the interoperability of U.S. merchant ships with our navy and improve the survivability of merchant ships operating in support missions." (Emphasis added.)

Should we install those National Defense Features in foreign yards at U.S. government expense? There are ways to insure the taxpayers will get their money's worth in this area. The owners of the Atlantic Conveyer, a container vessel lost during the Falkland Islands crisis, have agreed to incorporate national defense features into the design of the replacement vessel. Further, the owners have agreed to provide the vessel for use in NATO exercises to test technology and procedures which would enhance NATO sealift capability.

Such a policy might be pursued with S. 1624 product tankers as well. The new advances made by the Department of Defense in petroleum transfer technology, including single-point mooring buoys, towable bladders and the demands on product tanker use for fresh water production, carriage and transfer are yet untested on a large scale. The testing necessary to insure the proper function of those technologies and procedures could begin with the first vessel in a series production of S. 1624 product tankers. By the time a series of vessels was finished the system would be perfected. National defense efforts could then rely on tried and true equipment and personnel rather than hoping a theory proves correct. S. 1624 is a vehicle which can be steered in any direction that national security requirements take the Nation, rather than the immobile elephant graveyard of laid-up supertankers owned by the critics of S. 1624.

AGRICULTURAL CONCERNS

Concern within the farm community about the industry becoming a "captive shipper", needlessly increase resistance to legislation such as S. 1624 and S. 1616. Representatives of the Nation's agricultural sector emphasize that farm exports equal about 25 percent of U.S. export earnings and are essential to the health of the economy. The maritime industry is concerned that the entire national economy does not become a "captive shipper", unsafely dependent upon foreign-flag vessels for transport. The implications of a serious disruption of farm exports are too great for the entire economy to risk. Insuring that such a disruption does not take place, requires a strong U.S.-flag fleet.

The useless friction between maritime and farm interests is painful to witness since the similiarities in the problems they face are so great. Writing recently in The Washington Post, Governor Ted Schwinden of Montana, Chairman of the Governor's Conference on Agriculture, said:

"Policymakers must recognize that this nation's farm difficulties are related less to philosophical considerations at home than to politics and policies around the world. American agriculture will 'make it or break it' in the international marketplace. *Freemarket pricing of U.S. products will not assure American agriculture of a competitive edge in the world market.*" (Emphasis added.)

"It's time for the United States to flex its muscles. It's time we showed our competitors that we will no longer sit still and remain a residual supplier while they cash in on our head-in-the-sand agricultural export policies.

"It's tough to compete with countries like Canada, Australia and Argentina, which seem willing to pay whatever price is necessary in the form of taxpayer-financed subsidies to sell their agricultural goods."

The maritime industry knows the feeling well, having suffered the same problem of unfair foreign subsidies for many years. When other countries conclude that the United States does not have the national will to stand by its vital industries, whether it is the steel, maritime or agricultural industry, they will invariably adopt subsidy and support policies designed to knock us out of the competition. If we allow them to succeed, they eventually will recoup their losses largely at American expense.

Problems of ownership of maritime and agricultural resources are also quite similar. Just as it take a special love of the land for someone to till the soil next spring after this year's devasting drought, it also takes a special love for the sea for a person to sail again after experiencing the danger of a force five gale. This factor comes into play with the concerns generated by the loss of the U.S. family owned farm and the decrease in family-owned corporations. Absentee landlords and the expedient demand of investment portfolios, often work against the long-term, interests of rational farm policy. The same is true in the maritime sector. The love for the sea must be combined with a deep concern for the welfare and security of this country. Foreign investors who might exercise control over U.S.-flag assets and foreign crews and officers to sail American-owned, foreign-flag ships does not provide that combination. The fleet that will develop from S. 1624 does provide that combination and is one reason we support it so vigorously.

In supporting S. 1624 we are also recognizing the demands of a high technology future. Maritime labor welcomes the increased efficiency and worker safety that new technology brings. However, these developments must be looked upon for what they are: aids to operation and not replacements for essential shipboard labor. High-tech replacement of human being cannot be viewed as the only solution to the problems of the U.S.-flag fleet.

The respected Fairplay International Shipping Weekly recently addressed the dangerous trends in this area when it stated:

"We are told the ships of the future will be so automated that only a handful of highly technical men or women will be needed to operate them. When discussed and planned at the unriffled desk of an accountant tallying the cost of shipping, it all sounds tremendously feasible; but *when the same team of expert technicians find themselves at sea, battling a storm and automation creaks under the strain, then they may wish there were some seamen around they could call on for help.* Unfortunately, their calls will be in vain, because the seamen will have been made redun-

dant, and the shipowner's multi-million investment will be in serious jeopardy, simply because the accountants reckoned their percentages a little too optimistically. (Emphasis added.)

"The men who manned the ships will have given up hope of returning to them, and when the call should come to up anchor and sail again, the shipowners will cry 'Where are the seafarers?' Where indeed."

We can live with new technology and we can make it work to improve the competitiveness of the U.S.-flag fleet. Proper tax treatment will also improve the competitive posture of the U.S. fleet. Although many supporters of FOC's will tell you differently, the tax advantages of convenience registries are a prime attraction. Again quoting Fairplay:

"Shipowners *bedevilled by national taxation,* have become bolder in their outlook, seeing the benefits that their rivals have obtained from operating under flags of convenience; and more and more of the once established firms are stealthily removing their ships from a national flag to partake of the benefits of a free flag. *On the face of it, it makes sense to find ways of earning more money, but by so doing they are destroying their own national interests, and depriving their nations of a breed of seafarers.*" (Emphasis added.)

The provision in S. 1624 which provides a tax credit to those who incur higher costs by using U.S.-flag ships in an appropriate device to bring the costs and benefits of the legislation quickly into balance. The tax credits will reduce Treasury revenues by increasingly smaller amounts as the U.S.-flag fleet becomes more competitive through reduced operating and building costs. As the price difference between American and foreign costs becomes smaller, the amount of Treasury revenue deferred will be less as well.

Despite the tax credits for shippers, passage of S. 1624 will likely result in additional tax revenue to the Treasury, and the treasuries of state and local governments. One source of revenue will be the taxes paid by people who will become employed because of this bill. When in full effect, we estimate that this bill will result in seafarers alone paying an additional $52 million per year in personal income taxes. The average annual shipyard labor contribution would be $32.6 million.

Revenue will also come from corporations whose tax payments will grow because of increased production. The increased use of U.S.-flag vessels and crews will also mean more revenue from shipping companies who no longer will be able to escape paying taxes by registering their vessels under foreign-flags and by using foreign crews. The Treasury Department has estimated that the treasury loses over $100 million each year because of this loophole, which really amounts to in indirect subsidy of foreign-flag shipping. S. 1624, by requiring more U.S.-flag carriage, will help close this loophole and help reduce the federal deficit.

The deficiency in S. 1624 in the amendment to allow operators to build abroad which would cause severe damage to our commercial shipbuilding base. Naval officials have testified time after time that the Navy's shipbuilding budget cannot support our shipyard mobilization base, and on numerous occasions have described the dangers of an inadequate shipbuilding base. Much of the essential commercial shipyard capacity borders on the edge of extinction. On September 10, 1983, the *Falcon Champion* was launched from both shipyards in Maine. The *Falcon Champion* is the vessel in the United States to be built using construction-differential subsidies (CDS). Its launching, although exhilarating to witness, was also a grave warning. The danger is not so much in the absence of CDS but in the lack of a coherent policy as a replacement. The Nation's yards cannot be maintained or new technology introduced in the absence of new construction. An even more serious problem is the rapid decline in the shipyard workforce. The skills needed to efficiently build modern vessels are highly complex and there are few demands for these specialized skills in other industrial sectors. The massive shipyards layoffs which will soon occur, mean certain near-term unemployment and doubtful prospects for future employment, to tens of thousands of workers. We live in a time when the unemployment rate is so bad that the recent decline of a few tenths of a percent, is hailed as a turnaround. Can the Nation afford to risk eradicating that fragile optimism and all that it means to an economic recovery, by adding thousands of names to unemployment rolls through the abandonment of the Nation's shipyards?

In order to avoid that problem, the Maritime Trades Department fully supports the provision in S. 1624, to allow shipyards to deposit income from shipbuilding or ship repair contracts in a tax-deferred account for later use for shipyard improvement. The amendment to allow foreign building of U.S.-flag vessels will seriously reduce the amount of funds available for such a tax-deferred account and should be stricken from S. 1624.

Loss of shipyard facilities will prove costly to all levels of government. For example, consider the General Dynamics shipyard in Quincy, Massachusetts. In 1982, this yard employed 6,172 people. If this yard was closed, 6,172 people would be out of work, and the national economy would lose an average annual income of $143.3 million. Of course people have to pay taxes on that income, but without that income, the federal government could lose nearly $17 million in annual tax revenue. If all of those unemployed people had to collect unemployment benefits for thirty weeks, that would cost the Commonwealth of Massachusetts up to $31.8 million. If those unemployment benefits were extended to cover a full year, the federal government would pay out an additional $23.4 million. If these unemployed people needed food stamps to survive, that could cost the federal government as much as $12 million. Overall, the closure of this yard could cost over $68 million. This total cost does not even include those workers in supporting industries that would be thrown out of work, or the cost of business that would be forced to close.

In addition to economic considerations, serious concerns are also raised when we stop to consider the security implications of transferring our shipyard capacity offshore. With the decline in shipbuilding capacity among our NATO allies, the risk is even greater. In recent Congressional testimony the Maritime Administration testified that "Korea would be the prime beneficiary" of similar build abroad provisions. The same comment can be made regarding this proposal. As the recent Korean Airline tragedy demonstrates, the Republic of Korea leads a precarious existence. The Soviets make a practice of playing bully in the region and pose a serious security threat. The Pacific Fleet is the largest of the four Soviet fleets and roams freely near Korea and Japan. The Secretary of Defense in his 1984 report to Congress voiced other security concerns as well. In describing the military might of the U.S.S.R. he said:

"These forces now seem capable of mounting roughly concurrent offensives against Western Europe and Southwest Asia, or they could attack in one theater while holding the other under immediate threat of attack. Further, if Soviet conventional forces attacked or tied down allied forces in these two critical theaters, *North Korea might then take advantage of the situation and launch an offensive with their numerically superior ground and tactical air forces against our ally, the Republic of Korea."* (Emphasis added.)

Even if events do not grow more volatile, economic pressures eventually will diminish South Korean interest in shipbuilding. History shows us that shipyard capacity shifts to those nations with the cost advantages and/or national will to support them. In the 1950's the United States was dominant, in the 1960's European yards led the way, in the 1970's Japan's shipyard base developed rapidly. Now in the 1980's, South Korea is becoming a shipbuilding giant. Allowing U.S.-flag vessels to be built abroad will only accelerate that development.

What will the United States do however, when the South Korean government sees its cost advantages fading and grows weary of providing substantial government subsidy? Many experts believe the developing trend indicates that the PRC will become a major, if not the preeminent, shipbuilder in the world. China is already replacing South Korea as a primary source for many products. In a May 1983 study, the Korean Traders Association revealed that the PRC has, in a short time, taken the lead for 62 items in the manufacturing sector. Will the United States really know the meaning of national security if the shipbuilding base we helped transfer to Korea is eventually transferred to the PRC? In 1990's will this country be confronted with the expensive need to rebuild a shipbuilding base it abandoned in the 1980's?

In summary, the Maritime Trades Department supports passage of S. 188, S. 206, S. 1616 and S. 1624. We oppose Amendment 1516 to S. 1624. With the exception of Amendment 1516 we urge passage of the legislation for the following reasons:

It will result in thousands of new jobs, insure the continuation of tens of thousands of existing jobs, and spread substantial economic benefits throughout the economy.

It will revitalize our Nation's dry- and liquid-bulk fleet, whose construction will bring about a new beginning for our private commercial shipyards.

It will strengthen our national defense, and particularly our defense sealift ability to handle cargo during times of conflict, and our essential raw materials at all times.

It will provide additional tax revenues to federal, state and local governments, and will save those governments money they would have otherwise spent in lieu of the increased economic benefits provided by the bill.

We can only emphasize how important the tasks before the Congress really are. With the world reeling from warfare in Lebanon where the United States is under-taking its largest sealift operation since the 1973 Yom Kippur War, in Central America where armed conflict casts an ominous shadow over the Nation's economic supply routes in the Caribbean, in the Persian Gulf where world oil supplies are under constant threat and with the memory of the Falklands Crisis still fresh in our minds, can the United States safely ignore its global maritime responsibilities?

As the Nation approaches the next century, it must have a maritime policy that is consistent. The choice is simply whether it is to be consistently weak or consistently strong.

The Maritime Trades Department urges the Senate to pass the legislation urgently needed to maintain the U.S.-flag fleet. We stand ready to assist this body in any way to revitalize the U.S. merchant marine.

Senator STEVENS. Next we will have a panel. Mr. George Berg, Mr. Roger Asendorf, Mr. G. W. Garrett, and Mr. Henry Neshem. I understand Mr. Garrett wishes to go first, and if it is agreeable with the other gentlemen, it is agreeable with us.

We do appreciate your appearance and your statements will be printed in the record in full, and I thank you too, Senator, for your cooperation.

Senator TRIBLE [presiding]. Thank you, Senator Stevens.

Let me say at the outset if Mr. Garrett is going to go first that I welcome him today as a fellow Virginian. And for the record I want to say that Mr. Garrett has developed a fertilizer plant in Mechanicsville, Va., near Richmond, and turned that into a thriving agribusiness that provides hundreds of jobs for my constituents, and I applaud his success.

He is also a strong and responsible leader of the agricultural community in Virginia, and through his leadership of the Fertilizer Institute, has a national constituency as well. So you are most welcome.

STATEMENTS OF G. W. GARRETT, ON BEHALF OF THE FERTILIZER INSTITUTE; ROGER ASENDORF, FIRST VICE PRESIDENT, ON BEHALF OF THE AMERICAN SOYBEAN ASSOCIATION; HENRY NESHEM, SECRETARY-TREASURER, NATIONAL ASSOCIATION OF WHEAT GROWERS; AND GEORGE L. BERG, JR., ASSISTANT DIRECTOR, NATIONAL AFFAIRS, AMERICAN FARM BUREAU FEDERATION

Mr. GARRETT. Thank you, Mr. Chairman. My name is G. W. Garrett and as your chairman has said, I am president of Alliance Fertilizer Corp. in Mechanicsville, Va. I appreciate the opportunity to appear here today on behalf of the Fertilizer Institute and I will briefly summarize my testimony.

The farm supply industry's economic well-being is dependent upon the long-term prosperity of our Nation's farmers. Therefore, the fertilizer industry, the farmer's partner in providing abundant food and fiber, has become very concerned about any legislative proposals that would impact farm economy.

The fertilizer industry is sympathetic to the goals of the sponsors of this legislation, which are to promote and improve the Nation's merchant marine and shipbuilding industry. Personally, as a graduate of the Naval Academy and 10 years in Admiral Rickover's nuclear submarine program, and having listened to those cargo vessels pass overhead in the night, I can assure you that I am all in favor of a very strong merchant marine and shipbuilding industry in the United States.

However, as a representative of American agribusiness, there are a host of objections that I must raise concerning this particular cargo preference legislation that is the subject of today's hearing. The basis for these objections is our concern that the shipping costs associated with this legislation will thwart expansion of U.S. agricultural exports, and we need these exports desperately to continue the recovery of our farm economy.

We oppose the cargo preference for quite a few reasons. S. 1616, in my opinion, provides the President with too broad authority to certify commodities that may affect the national security, thereby giving him the ability to impose hidden embargoes on fertilizer and grain. Those in the grain industry are particularly sensitive to any form of export controls or embargoes because since 1973 agricultural exports were embargoed four times under three different U.S. Presidents.

Considering these past actions, I believe that S. 1616 provides another agricultural trades sanction weapon for future administration's use. Moreover, as everyone has begun to realize, embargoes only serve to erode the U.S. reputation as a dependable supplier.

S. 1616 expands the number of agricultural export programs subject to cargo preference at a time when USDA is increasing its efforts to boost U.S. grain exports. The well documented increases in cost associated with U.S.-flag ships will make the USDA commodity export programs so expensive that they would not be justified on a cost/benefit basis.

Subjecting farm commodity sales out of USDA's Commodity Credit Corporation to cargo preference would drain the dollars from this farmer program and reduce its effectiveness to increase agricultural export. Further, this bill would destroy any new initiatives or export promotion of agricultural commodities.

You heard earlier today from the Maritime Administrator's summary of statements on this particular bill. I would like to say, I agree totally with his statements. I feel that if we are ever to expand the agricultural export programs would be completely negated by expanding cargo preference.

Other segments should not be forced to subsidize the merchant industry, especially grain and fertilizer. Plain and simple, we cannot afford to absorb these subsidy programs.

In S. 1624 before you, you have an industry concept and that is the tax credit position. However, I oppose this title because of the broad discriminatory authority it gives the Secretary of Transportation to establish "qualified increase shipping costs." Further, I would oppose it because it would allow the Secretary of Transportation to set U.S.-flag rate differentials which is similar to the fox guarding the henhouse.

I am keenly aware that the maritime industry support cargo preference legislation because it would potentially create construction and maritime jobs. However, that is shortsighted. This is not a jobs bill, in my opinion. Jobs would be lost in the affected industries because of the loss of foreign markets due to noncompetitive shipping rates associated with the U.S. flags.

New U.S. bulk vessels are needed to survive naval and military needs to meet the national security threat. If this is true, then the cost should be place in the defense budget, not on the backs of industry, especially those industries producing grain and fertilizer. If the defense of our Nation is determined to be dependent on U.S.-flag ships and a healthy merchant marine as a vital part of that, then ships should be built and paid for out of defense outlays.

In summary, enactment of this legislation would be devastating to affected industries through loss of foreign trade resulting in increased unemployment and would lead to a reduction in America's balance of payments. Thus, the real debate before this subcommittee and Congress should be who will pay and at what cost for subsidizing the U.S.-flag bulk merchant marine fleet.

I thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF G. W. GARRETT, ON BEHALF OF THE FERTILIZER INSTITUTE

Mr. Chairman, my name is G. W. Garrett and I am president of Alliance Fertilizer Corporation, in Mechanicsville, Virginia. I appear here today on behalf of The Fertilizer Institute (TFI).[1]

The farm supply industry's economic well-being is dependent upon the long-term prosperity of our nation's farmers. Therefore, the fertilizer industry, the farmer's partner in providing abundant food and fiber, is becoming increasingly concerned about any legislative proposals that would impact farm economy. To that end, TFI has recently formed an Ad Hoc Agriculture Committee of which I am a member.

We appreciate this opportunity to testify on cargo preference legislation. The fertilizer industry is sympathetic to the goals of sponsors of this legislation which are to promote and improve the nation's Merchant Marine and shipbuilding industry. As a graduate of the Naval Academy and having served in the U.S. Navy's Submarine Program under the command of Admiral Rickover, I fully appreciate the need for a strong and viable Merchant Marine.

However, as a representative of America's agribusiness, there are a host of objections that we must raise concerning the cargo preference legislation that is the subject of today's hearing. The basis for these objections is TFI's concern that the shipping costs associated with this legislation will thwart expansion of U.S. agricultural exports so desperately needed now to restore full economic recovery to the farm sector.

The fertilizer industry specifically is a major user of the nation's ocean and Great Lakes port system. In fiscal year 1983, for example, the industry exported 23.7 million tons and imported 12.9 million tons of fertilizer and fertilizer materials. Over the past five years, the fertilizer industry exported over 131 million tons with a total value in excess of $12.4 billion. During the same period, the industry imported 68 million tons of fertilizer material with a value in excess of $6 billion. Our industry's five-year effort resulted in a positive contribution to the U.S. balance of payments of over $6 billion.

Mr. Chairman, we understand the focus of today's hearing to be on S. 188, a bill that requires certain mail to be carried on U.S. flag vessels; S. 206, a bill that increases the role of the Secretary of Transportation in administering the Merchant Marine Act; S. 1616, the Government Impelled Cargo Act of 1983; and S. 1624, the Merchant Marine Revitalization Act of 1983.

The bills that have the most direct impact on the fertilizer and agricultural industries are S. 1616 and S. 1624. Thus, the majority of our comments are directed at these two bills.

S. 1616

The Fertilizer Institute opposes S. 1616, the Government Impelled Cargo Act of 1983, for the following reasons:

The bill provides the President with too broad authority to certify commodities that may affect national security and, therefore, makes them subject to embargoes. It leaves uncertain what industries may be affected at any given time, thereby eroding the U.S. reputation as a dependable supplier.

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[1] TFI is a voluntary, non-profit association, whose members present appoximately 95 percent of the domestic fertilizer production in the United States. TFI's membership includes producers, manufacturers, traders, retail dealers and distributors of fertilizer materials. Its members are major shippers, receivers, and exporters of fertilizer and fertilizer materials.

It shares the problem of S. 1624 in that it shifts the enormous burden of financing the maritime industry subsidy to a limited number of industries, especially agriculture and specifically fertilizer.

It would apply cargo preference laws to USDA credit programs designed to boost agricultural export sales. The increased freight cost associated with U.S. flag vessels would negate USDA's efforts.

Mr. Chairman, Section 2 of S. 1616 provides the President with authority to impose a form of export controls, or a "hidden" embargo, on fertilizer and grain if he determines these commodities affect national security. Fertilizer and grain industries are particularly sensitive to any form of export controls or embargoes. Since 1973, agricultural exports, including phosphoric acid (an essential fertilizer material), were embargoed four times under three U.S. Presidents. Considering these past actions, TFI believes this section provides yet another agricultural trade sanction weapon for future Administrations to use.

Further, sections 3 and 4 of S. 1616 expand the number of agricultural export programs subject to cargo preference at a time when USDA is increasing its efforts to boost U.S. grain exports. The well-documented increased costs associated with U.S. flag ships will make USDA commodity export programs so expensive that they would not be justified on a cost-benefit basis.

Subjecting farm commodity sales, out of USDA's Commodity Credit Corporation, to cargo preference would drain dollars from this farm program and reduce its effectiveness to increase agricultural exports. Moreover, this bill would destroy any new initiatives for export promotion of agricultural commodities which are vital to the recovery of the depressed farm economy and the reduction in budget outlays for surplus farm commodities. For example, should cargo preference become a requirement for USDA's new blended credit program, the program's attractiveness to foreign importers would be completely negated.

Moreover, even the Administrator of the U.S. Maritime Administration has expressed concern regarding the impact of cargo preference costs on U.S. agricultural exports. In a memorandum dated July 27, 1983, addressed to the Deputy Under Secretary of Agriculture for International Affairs and Commodity Programs, the Maritime Administrator concluded the following:

"As a result of our analysis of the benefits derived from federal credit assistance under USDA's blended credit program, it has become apparent that the costs of any significant U.S. flag carriage for cargoes generated by the program, as presently formulated, would completely offset the export promotion benefits. This would result in a situation where exporters would avoid seeking credit assistance under the blended credit program. Neither the purpose of the blended credit program nor the objective of the cargo preference laws would be furthered by such a result."

TFI agrees with the Maritime Administrator's conclusion that efforts to expand U.S. agricultural export programs would be completely negated by expanding cargo preference.

S. 1624

S. 1624, the Merchant Marine Revitalization Act of 1983, would initially require five percent of all U.S. imports and exports to move in U.S. flag vessels with a 20 percent requirement phased in over a 15-year period. The fertilizer industry opposes this bill for the following reasons:

The fertilizer and grain industry should not be forced to subsidize the bulk Merchant Marine industry.

It is shortsighted to considered this legislation as a jobs bill. For every job created in the Maritime industry due to cargo preference, a job will be eliminated in the affected import/export industries because of the inability to compete in the international market due to increased freight costs associated with U.S.-flag vessels.

The U.S. government should reevaluate its subsidy program for the Merchant Marine fleet instead of attempting to shift the cost of the subsidy from the federal government to individual industries such as fertilizer and grain.

If the defense of the U.S. is dependent on U.S. flag bulk vessels, financing for construction and operation of these vessels should be paid out of defense outlays and shared by all Americans—not just a limited number of industries engaged in import/export trade.

Title I of S. 1624 shifts the government's Merchant Marine subsidy program to the backs of industries engaged in bulk import/export trade, such as fertilizer and grain. These industries simply cannot absorb the subsidy program. Fertilizer and agricultural industries are today facing their greatest export challenges in history.

Food and fiber exports have dropped precipitously for the third year in a row and fertilizer exports have plunged by 25 percent since 1981.

Title II of S. 1624, "The United States-Flag Ship Use Incentive Tax," provides a tax credit to offset a percentage of the costs of those who ship under cargo preference. While a tax credit concept has merit, TFI opposes this Title because of the broad discriminatory authority it gives the Secretary of Transportation to:

Establish "qualified increased shipping costs."

Set U.S. flag rate differentials, against which the 10 percent tax credit would apply.

TFI submits that the the Secretary's authority is so broad that it could result in no appreciable rate differential, thereby eliminating any tax benefits for importers and exporters required to use U.S. flag ships.

Title III of S. 1624, the Shipyards Facilities Capital Construction Act of 1983, permits the Secretary of Transportation to allow a shipyard to deposit income generated from a ship building or ship repair contract in a tax-deferred account to be used later for shipyard improvements. TFI supports the concept outlined in this Title because it would stimulate improvements which will benefit the Merchant Marine. Further, we submit that Congress should evaluate other concepts such as this that would benefit the Merchant Marine industry without adversely impacting other segments of the nation's economy.

Amendment number 1516 to S. 1624 would allow up to one-half of the bulk cargo reserve to U.S. flag ships to be carried on foreign built ships documented in the United States and manned by U.S. crews. TFI opposes the requirement that bulk cargo must be carried on U.S. flag vessels. Thus, the origin of the U.S. flag ship, whether it was built in a foreign or domestic port, is irrelevant.

S. 206

S. 206 would increase the role of the Secretary of Transportation in administering the Merchant Marine Act. TFI opposes this bill because it broadens the authority of the Secretary to determine and designate programs which may be subject to cargo preference requirements. As previously discussed, these programs would include USDA's low interest credit plans designed to boost U.S. agriculture exports.

S. 188

S. 188 requires that certain U.S. mail be carried on U.S. flag ships, and that the Postal Service shall contract for the use of vessels to transport mail by sea. The Fertilizer Institute does not oppose S. 188 in that the bill has no direct impact on the fertilizer or agriculture industries. We do have some concern that the bill could result in some delay in the mails that would otherwise go by air.

SUMMARY REMARKS

Enactment of this legislation would be devastating to affected industries through loss of foreign trade, resulting in increased unemployment and would lead to a reduction in America's balance of payments. Thus, the real debate before this subcommittee and congress is simply, "who will pay—and at what cost—for subsidizing the U.S. flag bulk Merchant Marine fleet?"

COST

The fertilizer industry is a major user of the nation's port system but does not use U.S. flag ships to meet its import and export tonnage demands. Why? The answer is simple—cost. Freight rates for U.S. flag ships average 100 to 300 percent higher than foreign flag. Differences in U.S. and foreign flag rates are readily apparent from the data given in Table A. The information is from the Agency for International Development (AID), which is mandated by law to use U.S. flag ships for 50 percent of all fertilizers and grain purchases financed through its office. AID is required to receive public bids for transportation and the data is taken from these offers.

For the three examples given in Table A, the average freight rate difference per ton between U.S. flag and foreign flag vessels, is $74. It is obvious that this additional freight cost per ton, associated with U.S. flag ships, which amounts to millions of dollars per vessel, would seriously impede, if not totally destroy, the U.S. fertilizer industry's ability to effectively compete in the international market. Instead of paying the additional freight costs, U.S. customers will simply look elsewhere for their needed fertilizer product.

JOBS

TFI is keenly aware that the Maritime industry supports cargo preference legislation because it would potentially create construction and Maritime jobs. It is shortsighted to consider this legislation as a jobs bill.

For every job the cargo preference legislation would save in the Maritime construction industry—there would be a potential loss of at least two jobs in the fertilizer industry. For example, in early January 1981, there were 14,000 people employed in Florida's phosphate industry. Since that time, phosphate exports have fallen 25 percent and the industry has laid off 3,700 employees—over 25 percent of the workforce. This trend would be expected to continue if this bill were enacted because of the loss of foreign markets due to the non-competitive shipping rates associated with U.S. flag ships. Moreover, a serious loss of jobs can be expected to increase in the grain and bulk food export and import trades as well.

NEED TO REEVALUATE MERCHANT MARINE SUBSIDY PROGRAM

The United States government has subsidized the U.S. Merchant Marine fleet since the enactment of the Merchant Marine Act of 1936. This law authorized five subsidy programs in which operators of U.S. flag vessels were eligible to participate. These programs are:

Operating-Differential Subsidies (ODS).

Construction-Differential Subsidies (CDS).

Federal Construction Loan Guarantees with subsidized low interest.

Deferred tax payments.

"Trade-in" Allowances: obsolete U.S. vessels bought by U.S. government in exchange for construction funds.

In fiscal year 1981, according to the U.S. Maritime administration (MarAd), ODS subsidies, operating cost differential between U.S. and non-U.S.-owned vessels, totaled $401 million or $768,000 per privately operated U.S. flag ocean going vessels or $15,900 per shipboard worker. The cost of CDS, construction cost differential between U.S. and non-U.S. vessels in fiscal year 1981 was $349.1 million or 48 percent of total construction and reconstruction costs for vessels under CDS contracts. Further, the U.S. government, since 1937, has paid the U.S. ship operators $6.1 billion in ODS subsidies and since 1936, $3.5 billion in CDS subsidies.

In addition to the 1936 Act, Congress passed the Cargo Preference Act (P.L. 480) in 1954. This law reserves half of government-created cargo for U.S. flag vessels. Since enactment, freight differential subsidies between U.S. and foreign flang ship have risen from $1 million to over $100 million a year in 1982.

It is clear today that this massive subsidy system has not worked and has failed miserably to promote the U.S. Merchant Marine fleet. The failure of the subsidy system was most accurately described in a letter circulated earlier this year by your colleague Senator Rudy Boschwitz (R-Minn.), discussing "cargo preference." The letter noted:

When the the Cargo Preference Act was signed into law in 1954, the U.S. maintained the world's largest Merchant Marine. The purpose of the law was to keep our fleet a mighty economic force in times of peace and a strong and modern part of our defense capability in times of war. It was to do this by reserving half of all government-generated cargo for U.S. bottoms.

"Since that time, shipbuilding subsidies and Operating Differential Subsidies (ODS) have gone from $122 million a year in 1955, to $610 million a year in 1981, and the ocean freight differential for P.L. 480 has risen from $1 million a year to over $100 million a year in 1982.

Have the Maritime subsidies and cargo preference worked?

"In 1955, the U.S. had 27.3 percent of the world's Merchant fleet deadweight tonnage and 3,304 U.S. flag Merchant vessels. Today , the U.S. share of the deadweight tonnage has fallen to only 3.6 percent and its ships number only 859."

To avoid perpetuating a subsidy program that has not succeeded in expanding the U.S. Merchant Fleet, we submit that the U.S. government should reevaluate its program assisting the Merchant Marine fleet instead of attempting to shift the cost of these subsidies onto the backs of American industries such as fertilizer and grain.

DEFENSE NEEDS

Some argue that new U.S. bulk vessels are needed to serve naval and military needs to met any national security threat. Indeed, the head of the U.S. Naval Military Sealift Command stated in June 1982 that at least 35 militarily suited dry bulk cargo ships would be required on a continuing basis to supply U.S. fighting forces during a conventional war.

Bulk vessels, however, are not even included in the National Defense Reserve Fleet which is administered by the Maritime Administration. (This fleet is maintained by the U.S. government for use in both military and non-military emergencies such as a commercial shipping crisis.)

Given this evidence, we doubt whether liquid or dry bulk vessels are of any direct military assistance since defense cargoes, with the possible exception of some fuel, are never shipped in bulk form.

Moreover, military cargoes, moving in an emergency, would likely be stowed between decks or on the top deck in modern containers. It does not seem reasonable to expect that in a U.S. military emergency, one of these tremendous bulk cargo ships, with nothing more than a hull and an engine room would be of any possible military use.

However, given the fact that the U.S. Military Sealift needs dry bulk bottoms for national security reasons, proponents of U.S. Maritime subsidies often overlook the importance of the U.S.-owned foreign registered and foreign-crewed vessels—the "Effective U.S. Control (EUSC)" fleet—also known as "flags of convenience."

All foreign registered ships owned by U.S. citizens are subject to requisitioning by the President for national security or defense purposes under authority provided under Section 902, 1936 Merchant Marine Act.

There are 466 flags of convenience ships according to a 1982 Maritime Administration report. The majority of these ships could provide direct military assistance and satisfy national security needs of the U.S. economy in the event of a national emergency. A recent study found that these vessels could handle strategic important needs during wartime or other emergency conditions.

However, if a bulk Merchant Marine fleet is truly needed for national security reasons, then the costs should be placed in the Defense budget—not on the backs of industry, especially those industries engaged in producing grain and fertilizer.

If the defense of our nation is determined to be dependent on U.S. flag ships and a healthy Merchant Marine, then these ships should be built and paid for out of Defense outlays.

Mr. Chairman, I thank you for the opportunity to testify.

TABLE A.—*Freight rates; United States versus foreign flag* [1]

Ship	*Freight rate per ton*
Movement: Fertilizer—U.S. Gulf to Zambia, October 12, 1982:	
Mormacrigel—United States	$102.75
Philippine Rosal—Philippines	35.00
Movement: Corn—U.S. Gulf to Egypt, April 1982:	
Pride of Texas—United States	80.75
Grace Boeing—Liberia	20.45
Movement: Fertilizer—Tampa to Bangladesh, February 1983:	
William Hooper—U.S	137.50
Rahman—Liberia	44.60

[1] This information was obtained from the Agency for International Development which is mandated to use U.S.-flag ships for 50 percent of all fertilizer and grain purchases financed through its office.

Senator **TRIBLE**. Mr. Garrett, thank you very much.

Mr. Garrett, we thank you for your presence and your testimony today. I think your view is a bit too apocalyptic, but we welcome your testimony.

Gentlemen, who is next?

Mr. Garrett, do you need to leave, if so, you can take off. We thank you for being here. If not, we would invite you to stay and join the panel when I give them an opportunity to respond to some questions.

Mr. **GARRETT**. Thank you.

Mr. **ASENDORF**. Mr. Chairman, my name is Roger Asendorf, and I am a farmer from Minnesota, and I am here on behalf of the American Soybean Association.

We appreciate the opportunity to comment on S. 1624, S. 1616, and S. 206, and ask that our written and oral remarks be included in the subcommittee hearing record.

Senator **Trible**. Let me say to you, sir, and to the other members of the panel that your full statement will be made a part of the record.

Let me also say that a number of the members of our committee who could not be here are vitally interested in this legislation, and they have questions to propound and we would like to do so in writing after the fact. So we will ask all of you to respond to a reasonable number of questions, and we would ask you to submit your answers for the record.

Please proceed.

Mr. **Asendorf**. The American Soybean Association is a national commodity organization representing the interests of 450,000 soybean farmers. Soybeans emerged from near obscurity in the 1950's to become the top cash export for American farmers last year, the No. 2 cash crop, and one of the top three in harvested acreage.

U.S. soybean farmers support a strong merchant marine, but not at the expense of American agriculture. Approval of the three bills under consideration today would reduce the soybean farm income, jeopardize soybean exports, and subsidize our merchant marine via taxing agricultural.

S. 1624 and S. 1616 are thinly veiled forms of protectionism which would assure eligible U.S. bulk vessels a guaranteed market share of U.S. Government and commercial cargoes. Before cargo preference is expanded, Congress should recognize the failures of past maritime subsidy programs.

U.S. maritime subsidies have not achieved their established goals of strong, modern, and competitive U.S. merchant fleet, capable of adequate military sealift support. U.S. bulk shipping rates are 100 to 300 percent higher than foreign-flag rates to carry U.S. Government cargo.

For almost 47 years, the U.S. maritime policy has been to subsidize the U.S. merchant marine into efficiency. Based on this dismal track record, how can Congress seriously believe that more subsidies mandated by S. 1624 and S. 1616 would actually make our commercial fleet more competitive and profitable in the world shipping market.

S. 1624 would reduce farm income and erode U.S. agricultural exports because it would force U.S. exporters to use U.S.-flag vessels which would make our exports less competitive with goods from competing countries. Most likely, our foreign customers would not pay the additional cost of cargo preference since U.S. soybean exports compete on a cost-at-destination with foreign produced oil seeds.

The agricultural marketing chain would not pay the cost which would only reduce profit margins, especially since they can be passed back to the farmer. Farmers will be forced to absorb the cost of cargo preference in the form of lower available sale price per bushel. A full 24-percent preference requirement would cost soybean farmers $275 million a year based on 1982 export volumes. Taking into account the bill's 20-percent cost savings, this translates into lost earnings of $611 per farmer.

ASA appreciates the provisions of S. 1624 which would force a 20-percent cost savings and allow shippers a tax credit. However, there is no guarantee that a 20-percent cost savings or tax credit will actually reduce bulk cargo rates to levels charged by foreign flag vessels. Instead of legislating tax credits, why not squarely face the problem by encouraging U.S. ships to compete openly in world markets.

As for S. 1616, the bill would not only expand the number of USDA export programs subject to cargo preference, but also the cargo percentage that must travel on U.S. ships by forcing at least 50 percent, perhaps up to 100 percent, of all USDA agricultural exports to travel by U.S.-flag vessels. It would make our commodity programs so expensive they could not be justified on a cost/benefit basis.

Faced with fewer exports, American farmers would be forced once again to shoulder the burden of subsidizing the U.S. merchant fleet. Less volume exported under USDA's export programs would also mean less cargo for the U.S. merchant fleet.

As S. 206, ASA believes it is inequitable for one agency to require such tremendous budget outlays of another agency. History has demonstrated that the Department of Transportation is not always a willing listener to the USDA's concerns over cargo preference costs. However, ASA applauds the Department of Transportation for its recent decision to exempt the highly successful blended credit program from cargo preference.

The American Soybean Association would welcome the opportunity for U.S.-flag vessels to carry U.S. soybeans as long as rates and service were similar to those of foreign-flag ships. Until that time, we must strongly oppose any effort which jeopardizes soybean exports to assist an industry whose best tonic is competition in the international shipping market. Only then will the U.S. merchant marine have strong incentives to innovate, reduce operating and construction costs, and to move toward becoming truly competitive in the world shipping fleet.

If Congress truly believes that it can subsidize our merchant fleet into efficiency and make it competitive, subsidies haven't worked in the past and, moreover won't solve the problem. Agricultural trade policy should not be held hostage to U.S. maritime policy. Under S. 1616, cargo preference law would dictate USDA export policy by forcing elimination of important agricultural export programs.

Instead of seriously considering S. 1624, the American Soybean Association urges Congress to amend existing cargo preference law to prevent U.S.-flag vessels from charging excessive rates. The American Soybean Association urges this committee not to approve S. 1624, S. 1616, and S. 206.

I thank you, Mr. Chairman, and committee members for the opportunity to present our views, and I will be pleased to respond to any questions the subcommittee may have.

[The statement follows:]

STATEMENT OF ROGER ASENDORF, FIRST VICE-PRESIDENT, AMERICAN SOYBEAN ASSOCIATION

My name is Roger Asendorf and I am a farmer from St. James, Minnesota, where I raise soybeans, livestock and corn. I appear today in my capacity as the farmer-elected First-Vice President of the American Soybean Association to comment on S. 1624, S. 1616, and S. 206, legislation to reform U.S. cargo preference policy. We ask that our comments be included in the record of the Subcommittee's hearing on three bills.

The American Soybean Association (ASA) is a national, volunteer, non-profit, farmer-controlled, single commodity association organized to assure the opportunity for a profitable soybean industry. ASA has approximately 24,000 dues-paying members, and is supported by over 450,000 soybean producers who voluntarily invest in ASA programs through 24 separate soybean checkoff programs. ASA seeks to maintain soybean profitability through its foreign market development, research, producer and public information, and government relations programs.

U.S. soybean farmers support a strong U.S. Merchant Marine, but not at the expense of U.S. agriculture. Congressional approval of the three bills under consideration today would reduce soybean farm income, jeopardize soybean exports and subsidize the U.S. Merchant Marine via taxing U.S. agriculture. S. 1624 and S. 1616 are thinly-veiled forms of protectionism which would ensure eligible U.S. bulk vessels a guaranteed market share of U.S. government and commercial cargoes. Members of Congress opposed to domestic content legislation for automobiles should recognize the bills as nothing but domestic content for shipping.

Cargo preference supporters are fond of pointing out that U.S. agriculture is subsidized by the federal government. Soybean farmers are not eligible for PIK or the extensive price support programs available to many other commodities. Soybeans are not a heavily subsidized crop, in fact USDA will earn about $40 million this year from the soybean loan program. The soybean program is a function of the marketplace; when prices are above the loan level (which they usually are) farmers sell their soybeans in the open market. Soybean farmers repeatedly sold their crop at below the cost of production, without asking the government to guarantee them a price covering production costs plus a guaranteed profit. They do not believe such subsidies create efficiency and innovation—not for agriculture nor for the U.S. merchant fleet.

U.S. MARITIME SUBSIDIES: ARE THEY SUCCESSFUL?

Before cargo preference is expanded under S. 1624 and S. 1616, Congress should recognize the failures of past maritime subsidy programs. Between 1936—when the Merchant Marine Act was enacted—and 1981, $9.7 billion was spent in outlays for maritime operating and construction/reconstruction subsidies ("MarAd '81," Annual Report, October 1982). As of September 30, 1982, construction loan guarantees in force and outstanding amounted to nearly $8.1 billion ("Maritime Subsidies," MarAd, February 1983). Despite almost $18 billion in expenditures and financial commitments over the past 46 years, the U.S. has only 578 vessels in its merchant fleet.

U.S. maritime subsidies have not achieved their established goals of a strong, modern, competitive U.S. merchant fleet capable of military sealift support. Among the U.S. dry bulk fleet, the age of 10 of the 23 available vessels is 15 years or more. The U.S. ranks eleventh in the number of ships among major world fleets and eighth in terms of deadweight tonnage ("MarAd '81," Annual Report October 1982). Yet the average age of the unsubsidized U.S. Effective Control Fleet's 105 bulk vessels is ten years. Thus, these ships are more modern and provide more reliable service than do comparable U.S. vessels.

Despite access to a realm of government subsidy programs—cargo preference, ODS, CDS, CCF,[1] CRF [1] and low interest loans, why have U.S. companies built and registered 111 percent more deadweight tonnage abroad than in the U.S.? MarAd's most recent data indicates the U.S. merchant fleet has a capacity of 21,804,000 dwt while the U.S-owned, foreign-registered Effective Control Fleet totals 46,119,031 dwt.

The underlying question before U.S. taxpayers is why can't the U.S. attract and develop a large, modern U.S. merchant fleet without government subsidies? Supporters of federal maritime subsidies contend subsidies are needed since U.S. shipping companies cannot compete with foreign merchant fleets which enjoy subsidies from their host nations. Why then, is the U.S. Effective Control Fleet registered under the flags of Panama, Liberia and Honduras, which offer no subsidies but still require registration fees and tonnage taxes? Even without the benefits of U.S. subsidies, it is still cheaper for U.S. companies to build and register abroad. If they can compete, why can't the U.S. merchant fleet?

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[1] The Capital Contruction Fund and the Construction Reserve Fund are tax deferral programs.

The U.S. maritime industry has priced itself out of the world vessel construction market and the international bulk shipping market. Federal subsidies have actually encouraged U.S. vessels not to compete against foreign-registered ships, since U.S. carriers have had guaranteed cargoes, subsidies for operation and construction, and preferential tax deferral treatment. Such subsidies have allowed construction and operating costs to soar well above those in foreign merchant fleets.

The result? Shipping fixtures costs which are 100–300 percent higher than foreign-flag rates to carry cargo which the government is forced to ship on U.S. vessels under current cargo preference law. The ultimate injustice falls on the U.S. taxpayer, who last year was forced to pay $97.8 million just for cargo preference under Pub. L. 480 Titles I/III alone. That translated into $52.57 more per metric ton, or $1.43 per bushel if the cargo was wheat or soybeans.

The average cost of a dry bulk 35,000 dwt vessel constructed in U.S. ship yards in 1982 was $66 million, versus $23 million abroad, according to MarAd data. That's almost a 300 percent difference in price! Instead of narrowing the construction cost gap over the last decade U.S. ship construction costs have actually increased at a faster rate than those abroad. With construction subsidies and cargo preference, what else could be expected?

High labor wages constitute the majority of vessel operating costs. U.S.-flag shipboard salaries have grown so large they are up to eight times those of foreign-flag vessels, according to industry reports. A third mate graduating from the U.S. Merchant Marine Academy working on a commercial vessel can expect an annual starting salary of $37,000 with six months of paid vacation. If the third mate were to work all year at that rate, he would earn more than a U.S. Senator or Congressman!

In contrast, a midshipman graduating from the U.S. Naval Academy is paid an average $13,176 annually, with 30 days vacation. The USNA graduate is also performing active U.S. military duty, while the Marine Academy graduate, trained with federal money, is working for U.S. non-defense, commercial interests, earning 280 percent more a year.

For almost 47 years the U.S. maritime policy has been to subsidize the U.S. merchant marine into efficiency. It hasn't worked! Based on this dismal track record, how can Congress seriously believe that more subsidies mandated by S. 1624 and S. 1616 would actually make our commercial fleet more competitive and profitable in the world shipping market?

S. 1624: DEPRESSED FARM INCOME LESS EXPORTS

S. 1624 would reduce farm income and erode U.S. agricultural exports because it forces U.S. exporters to use U.S.-flag vessels, which would make our exports less competitive with goods from competing countries. Instead of forcing U.S. tax revenues to pay for cargo preferences, S. 1624 would simply "tax" farmers and other U.S. bulk industries who are competitive in the world marketplace to subsidize an inefficient U.S.-flag shipping industry.

Exports are vital to the livelihood of American soybean growers. In 1982, 600,000 U.S. soybean farmers produced a $12.2 billion crop; 52 percent was sold abroad, worth $8.4 billion. Total U.S. exports of soybeans, soybean meal and soybean oil were 32.7 million mt last year, or 4.6 percent of total U.S. export/import volume which is about 700 million tons a year. U.S. soy complex exports represent 22 percent of total U.S. agricultural export earnings and 4 percent of total U.S. exports. Soybeans emerged from near obscurity in the 1950's to become the top cash export for American farmers last year, the number two cash crop, and one of the top three crops in harvested acreage.

I. Impact on soybean prices and exports

If a fixed percentage of U.S commercial soybean exports are forced aboard U.S.-flag vessels, the increased transportation costs must be paid by someone. Would our foreign customers be willing to pay the costs of cargo preference in the form of higher prices? No. U.S. soybean exports compete with foreign-produced oilseeds on a cost-at-destination (c.i.f.) basis. U.S. soy complex export prices and world market shares are already being undercut in the world market due to the predatory export subsidy practices of Brazil, Argentina, Spain and others. For example, Brazilian soybean oil subsidies have made their product $65 cheaper per ton than U.S. soybean oil (c.i.f. Calcutta). The U.S. has lost 85 percent of its Indian oil market in the past two years.

The U.S. bulk merchant fleet would have not incentive to absorb increased transportation costs from cargo preference, since they already have a guaranteed cargo market. The agricultural marketing chain would not pay the costs, which would only reduce profit margins, especially since they can be passed back to the farmer.

Farmers are "price takers," not "price makers." For this reason, farmers will be forced to absorb the costs of cargo preference in the form of a lower available sales price per bushel.

Upon immediate implementation of S. 1624, soybean farmers would lose $86.21 million in income, assuming a $52.57/ton differential as occurred under Public Law 480 last year. Given the 20 percent cost-savings required under S. 1624 which would reduce the differential to $42.06/mt, a full 20 percent preference requirement would cost soybean farmers $275 million annually, based on 1982 export volumes. This translates into lost earnings of $611 per farmer. Cargo preference costs, based on a $52.57 differential, amount to $1.43 per bushel of soybeans, wheat or corn. That's 22.5 percent of last year's average soybean price received by farmers, 32.6 percent of the wheat price and 51 percent of the corn price. Taking into account a 20 percent cost-savings, preference costs would be $1.14/bushel, still a substantial percentage.

It is poor national policy to force one producing sector of the economy to subsidize another, especially when the industry to be subsidized is as inefficient as the U.S. maritime industry. S. 1624 would cause massive transfers of income from U.S. farmers to the U.S. Merchant Marine, injuring the U.S. agricultural economy which is only now beginning to emerge from a depression. The bill would plunge the 23 percent of America's workforce employed in agriculture back into its depression. Is this what supporters of H.R. 1242 have in mind?

II. Why build additional U.S. bulk vessels amid today's surplus?

ASA questions why cargo preference supporters hope to stimulate construction of U.S. bulk vessels amid today's surplus. Why should the U.S. artificially stimulate construction of this additional bulk capacity when at almost 20 percent of the U.S. bulk merchant fleet is already idle? (as of May 1, 1983, MarAd data) Since 7 percent of the world's dry cargo fleet is also idle [2] it is doubtful whether additional U.S. bulk carriers could even find work in the international shipping market if they didn't have access to guaranteed U.S. tonnage. This additional surplus capacity would further depress ship fixtures, only fueling political pressure for more U.S. maritime subsidies.

III. S. 1624's cost-savings and tax credit provisions: Impact on U.S. agriculture

ASA appreciates the provisions in S. 1624 which would force reduction in 20 percent operating and construction costs, since they indicate an awareness that such costs today are excessive and unreasonable. S. 1624's tax credit provision illustrates a recognition of shipper needs and is a step in the right direction away from forcing shippers to subsidize the U.S. commercial bulk fleet.

However, these two provisions do not adequately address the fundamental problem of cargo preference—that maritime subsidies perpetuate U.S. uncompetitiveness in world markets. There is no guarantee that a 20 percent cost-savings or tax credit will actually reduce bulk cargo rates to levels charged by foreign-flag vessels. Instead of legislating tax credits to shift the burden of cargo preference and help offset excessive U.S. rates, why not squarely face the problem by encouraging U.S. ships to compete openly in world markets?

S. 1616 AND S. 206: IMPACT ON SOYBEAN EXPORTS

S. 1616 would not only expand the number of USDA export programs subject to cargo preference, but also the cargo percentage that must travel on U.S. ships. By forcing at least 50 percent—perhaps up to 100 percent of all USDA agricultural exports to travel by U.S.-flag vessels, S. 1616 would make our commodity programs so expensive they could not be justified on a cost-benefit basis. These programs include GSM—102 loan guarantees, GSM-5 direct credits, Public Law 480, the new "blended credit" program and future "export PIKs." (See attachment).

Since Congress is unlikely to increase USDA appropriations to pay increased cargo preference costs of S. 1616, farm exports would decline because smaller export volumes would be required to offset the higher transportation expense. The humanitarian and diplomatic impact of reduced USDA export volumes should not be overlooked. Faced with fewer exports, American farmers would be forced once again to shoulder the burden of subsidizing the U.S. merchant fleet. Less volume exported under USDA's export programs would also mean less cargo for the U.S. merchant fleet.

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[2] Source: General Council of British Shipping

S. 206, which would grant the Secretary of Transportation sole authority for determining which government programs are subject to cargo preference, would remove the equal footing enjoyed by Cabinet Secretaries by forcing one to abide by the mandated decision of the other. It is also inequitable for one agency to require such tremendous budget outlays of another agency—and history has demonstrated that DOT is not always a willing listener to USDA's concerns over cargo preference costs.

However, ASA applauds DOT for its recent decision to exempt the highly successful "blended credit" program from cargo preference. Under the program interest rates are "bought down" by approximately 2.2% below commercial interest rates. That means a purchaser of wheat worth $150 per metric ton realizes a net decrease in annual finance charges of $3.30 per metric ton with the blended credit program. That is the cost to the Commodity Credit Corporation.

If half of the wheat had to be shipped on U.S.-flag vessels at an average differential of $52.00 per ton, the per ton shipping cost would increase by $26.00. Thus, a blended credit program subject to cargo preference would have actually increased the cost of the wheat to the foreign buyer by $22.70 per ton. Obviously, the foreign buyer would not agree to the higher cost and would either not buy wheat at all or purchase it from another exporting nation abroad. If USDA was forced to pay the higher U.S.-flag shipping costs, its cost for the above blended credit wheat sale would have increased from $3.30 per ton to $29.30 per ton, almost an 800% increase.

Agricultural programs do not run counter to the interests of the U.S. merchant fleet. In fact, increased exports mean more available cargo to transport—as long as the U.S. merchant fleet is willing to compete. Millions of dollars could be saved without sacrificing quality or availability of service if foreign-flag vessels were able to carry USDA cargoes, or if U.S.-flag vessels offered rates comparable to foreign-flag vessels.

This cost could double if the President used his full authority granted under Section 7, Subsection a/1/e of S. 1616. This provision would require that all commodities the President decides affect national security must be carried on U.S.-flag vessels. Are agricultural exports vital to the U.S. national security? President Carter thought so when he embargoed exports of U.S. agricultural commodities, including soybeans to the Soviet Union in January 1980.

S. 1616 does not provide any incentive or requirement that U.S. bulk shipping fixtures be truly "fair and reasonable." Under current cargo preference law which requires "fair and reasonable" rates, MarAd allows U.S. ships to charge as much as 300% more than foreign-flag vessels for identical service. ASA supports "fair and reasonable" fixtures, but believes that Congress should define rates to be "fair and reasonable" when they are competitive with foreign-flag rates. The most effective way to ensure that the U.S. merchant fleet charges competitive rates is to force U.S.-flag vessels to compete for cargo in world markets instead of relying on guaranteed government cargoes at excessive rates.

CONCLUSIONS: NEED FOR LEGISLATIVE MARITIME REFORM

The American soybean industry would welcome the opportunity for U.S.-flag vessels to carry U.S. soybeans, soybean meal and soybean oil as long as rates and service were comparable with those of foreign-flag ships. Until that time, we must strongly oppose any effort which jeopardizes soybean exports to assist an industry whose best tonic is competition in the international shipping market. Only then will the U.S. Merchant Marine have strong incentives to innovate, reduce operating and construction costs and move towards becoming truly competitive in the world shipping fleet.

Agricultural trade policy should not be held hostage to U.S. maritime policy. Under S. 1616, cargo preference law would dictate USDA farm export policy by forcing elimination of important agricultural export programs. Instead of seriously considering S. 1624, ASA urges Congress to amend existing cargo preference law to prevent U.S.-flag vessels from charging excessive rates.

It is time to roll back, not expand cargo preference. Instead of enhancing maritime efficiency, the bills under consideration today will only increase federal subsidies to an already over-subsidized U.S. merchant fleet—and rationalize the additional expense by spreading it among as many agencies and shippers as possible to diffuse maritime accountability.

Does Congress truly believe it can subsidize our merchant fleet into efficiency and make it competitive? Supporters of more subsidies must believe such programs have been successful, or they would not press for increased government protectionism. Cargo preference and other maritime subsidy programs have clearly failed their original objective of providing the U.S. with a modern merchant marine capable of supporting a war effort when needed. Subsidies haven't worked and more won't solve the problem.

ASA supports competitive reform of U.S. maritime policy. As a first step towards manningful reform, we urge this Committee to investigate why the U.S. bulk fleet is uncompetitive in the world market by examining the factors which contribute to its high cost of operation. Areas to evaluate include: excessive ship manning, labor vacation leave and other benefits, shipbuilding costs, empty backhauls due to cargo preference and exorbitant crew salaries.

ASA urges this Committee not to approve S. 1642, S. 1616 and S. 206. If these bills are brought before the full Senate for a vote, we will be compelled to do our best to defeat them, or use them as a vehicle to repeal or reform current cargo preference laws.

Thank you for this opportunity to present our views. I ask that the attached comparison of U.S.-flag and foreign-flag shipping costs under Public Law 480, a chart illustrating soy exports under USDA progams and an article from the Philadelphia Inquirer be included in the Committee hearing record. I will be pleased to respond to any questions the Subcommittee may have.

USDA SOYBEAN EXPORTS

[Million dollars; 1,000 metric tons]

	GSM-102		GSM-5		Public Law 480				Annual totals	
					Title I		Title II			
	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume
Fiscal year 1981:										
Soybeans	$80.2	264.3							$80.2	264.3
Soybean meal	128.4	434.3							128.4	434.3
Soybean oil	41.4	84.4			$80.2	148	$117.3	138	238.9	370.4
Fiscal year 1982:										
Soybeans	96.1	388.2							96.1	388.2
Soybean meal	19.2	75.7							19.2	75.7
Soybean oil	74.7	132.0			84.5	179	96.4	130	255.6	441.0
Fiscal year 1983:										
Soybeans [1]	86.9	376.7	$3.5	78.2					90.4	454.9
Soybean meal [2]	132.7	353.2	4.0	166.8					136.7	520.0
Soybean oil [3]	215.5	264.6	8.0	62.3	107.3	236	92.0	120	422.8	682.9
Total	875.1	2,373.4	15.5	307.3	272.0	563	305.7	388	1,468.3	3,631.7

[1] Preliminary.

[2] Dollar amount is for protein meal, but most will be soybean meal.

[3] Dollar amount is for vegetable oil, but most will be soybean oil.

Source: FAS, USDA.

SOYBEAN OIL CARGO PREFERENCE RATES

[USDA provided ASA with the ship charters and rates for transporting Public Law 480 vegetable oil during fiscal year 1981 and fiscal year 1982. Listed below are several typical rates for United States and foreign flag vessels. The difference in rates vividly points out the need to reform the Cargo Preference Act]

Ship	Country of registry	Loading port	Destination	Tonnage (metric tons)	Rate (cost per metric ton)	Rate/pound
Bowoon No. 9	Korea	U.S. Gulf	Bangladesh	6,350	$67.48	3.06
Benjamin Harrison	United States	do	do	3,221	206.44	9.37
Banglar Kakoli	Bangladesh	do	do	5,000	77.00	3.49
Button Gwinnet	United States	do	do	5,000	160.00	7.26
Adabelle Lykes	do	do	Jamaica	1,000	90.00	4.08
Pan Am Trader	Japan	do	do	800	36.75	1.67
Louisiana Getty	United States	do	Pakistan	24,000	82.49	3.74
Mona	do	do	do	20,000	86.24	3.91
Stolt Hawk	Liberia	do	do	31,000	34.00	1.54
Nitsa	Greece	do	do	24,179	33.00	1.50

SOYBEAN OIL CARGO PREFERENCE RATES—Continued

[USDA provided ASA with the ship charters and rates for transporting Public Law 480 vegetable oil during fiscal year 1981 and fiscal year 1982. Listed below are several typical rates for United States and foreign flag vessels. The difference in rates vividly points out the need to reform the Cargo Preference Act]

Ship	Country of registry	Loading port	Destination	Tonnage (metric tons)	Rate (cost per metric ton)	Rate/pound
Perryville	United States	do	do	24,000	71.87	3.26
Ulcinj	Yugoslavia	do	Somalia	3,090	63.50	2.88
James Lykes	United States	do	do	2,100	209.00	9.48

Note: Weighted average U.S.-flag rate, $93.58; weighted average foreign-flag rate, $41.06; Subsidy paid to U.S.-flag ships for Transporting 79,321 metric tons, $4,165,938.

Source: Prepared by the American Soybean Association, Washington Office, April 1983.

Senator TRIBLE. We thank you for your testimony.

Let me say that as a Virginia farmer who raises corn, wheat, and soybeans, it is hard for me to understand how you can rale against subsidies for the maritime industry, when as a farmer you receive such substantial support from the U.S. Government.

I know of no industry that is more heavily supported by Government payments and Government subsidies, and Government preferences than American agriculture, and for good reason, I would hasten to add.

But I just find it somewhat ironic to hear you extolling the virtues of the free market and the need for independence, all those good things, when there is no part of our economy that is more heavily dependent on the Federal Government for its well-being than a farm community, and I speak as someone who shares that experience. That is just a statement.

My question is this, If the terms of this cargo equity legislation were made to apply only to American imports, what would your position be?

Mr. ASENDORF. I am afraid, as far as agriculture is concerned, I would also have to be opposed to that in that our fertilizers and some of our imports, such as petroleum, also travel on the high seas and would have to comply with the cargo preference laws.

It gets back to the same basic fact, I feel that cargo preference hasn't made an efficient industry out of the merchant marine in the past, and I fail to see how it would in the future.

In response, if I may, Senator, to the statement you made, the Soybean Association and the soybean industry does not——

Senator TRIBLE. I was speaking in a broad generic sense of the farm community. I am very familiar with soybean prices.

Our next witness.

Mr. NESHEM. Mr. Chairman, and members of the subcommittee.

I am Henry Neshem, secretary-treasurer of the National Association of Wheat Growers and a farmer from Berthold, N. Dak. I want to thank you for the opportunity to comment on S. 1616, 206 and 1624, all of which are related to changes in current cargo preference requirements.

The issues we would like to address relate to the current relationship between cargo preference laws and agricultural exports, how recent trade developments have reduced farm exports and thus farm income, the potential job loss due to more stringent cargo preference laws, and the adverse impact of cargo preference requirements on the balance of trade.

Let me preface my remarks by stating that the National Association of Wheat Growers is in support of a strong, viable, domestic maritime industry. We have grave concerns, however, that American agriculture will underwrite the cost of the maritime industry through reduced exports, increased outlays by the U.S. Department of Agriculture for shipping, and through job loss both on and off the farm.

As you well know, present law requires that if the United States has played a substantial economic role in furnishing a commodity to an importing nation, 50 percent of such goods must be shipped on U.S.-flag vessels. Therefore, a program strongly supported by wheat growers, the Agricultural Trade and Assistance Act, better known as Public Law 480, is subject to cargo preference laws.

Public Law 480 originally served as the basic authority for the sale of excess wheat and other farm commodity for foreign currency, and to implement emergency relief, but it has evolved into a major policy tool which can be used to reduce hunger in the world, to stimulate the development of overseas markets for U.S. farm products, and to advance overall U.S. policy goals.

Wheat has been a leading commodity under Public Law 480 sales program, and title I sales have accounted for as much as four-fifths of total shipments in recent years. The use of the Public Law 480 program in development of foreign demand and expanding overseas market potential for U.S. wheat has brought enduring benefits to American farmers. We are convinced that this program must remain viable if further gains are to be made in expanding U.S. wheat exports.

Simply stated, the United States cannot boost its share of world wheat trade unless it is competitive, and the Public Law 480 program is important to maintaining and building the U.S. share of trade with developing markets.

An integral feature of the Public Law 480 program is the U.S.-flag requirement. At least 50 percent of the tonnage purchased under title I must be carried in privately owned U.S.-flag vessels to the extent such vessels are available.

An ocean freight differential subsidy is paid by the U.S. Government through the USDA's Commodity Credit Corporation. This differential is used to offset the higher cost of U.S. vessels. More than half of the products shipped under the Merchant Marine Act of 1954 have been for the Public Law 480 program.

The cargo preference requirements have been costly to the CCC. The USDA has stated that $120 million in additional funds could have been made available in 1982 for programing of wheat and other commodities, while reducing the problem of maintaining adequate funds for Public Law 480 commodity sales in future years.

NAWG believes that the cost of financing U.S. vessel participation in Public Law 480 trade could be more appropriately assigned to the Maritime Administration which conducts programs that aim to benefit the U.S. maritime industry. Shipping on U.S.-flag vessels can cost anywhere from 100 to 300 percent more than on a foreign-flag vessel.

A recently completed Chase Econometrics study, using transportation cost data supplied by USDA, shows that the total cargo preference cost to title I and title III of the Public Law 480 program was $93.4 million for fiscal years 1980 and 1981. The cost of shipping on U.S.-flag vessels was on an average 103 percent higher than on foreign-flag vessels.

The additional cost of using U.S. vessels to ship grain is approximately $1.20 more per bushel. This $93.4 million cost means that 21.69 million fewer bushels of U.S. wheat were purchased for use in the Public Law 480 program. Placing this into graphic terms, 21.59 million bushels of wheat is enough to bake almost 1.6 billion loaves of bread, or supply enough wheat for 1 year for consumption by Kenya, Fiji, Madagascar, and Senegal, and still have a little left over.

Such lost sales not only hurt farm income, but also represent a loss to inland carriers and to the ports. You may remember that out of every million drop in agricultural exports, 2,400 U.S. jobs are eliminated.

Agriculture in recent years has been a bright spot in the Nation's economy. Between 1970 and 1981, farm exports grew from $6.7 to $44 billion, but the worldwide recession and fierce competition from other exporting nations has brought a decline of 20 percent in export sales to about $35 billion. In the case of wheat, export sales have dropped 15 percent since 1982, or 41 million tons, and current prospects suggest that it will be difficult to maintain this level of sales in 1984 and future seasons.

This is no time to consider placing additional burden on export sales by expanding the application of U.S. cargo preference. Further application of cargo preference requirements to an increasing share of the Nation's imports will impact heavily on foreign production costs in the United States, which are very energy intensive. Such a development could only intensify the cost-price squeeze which is affecting farmers and leading to further economic deterioration in the agricultural sector.

Of great concern to wheat growers is the extension of cargo preference laws to payment-in-kind sales, such as the recent 1-million-ton flour sale in Egypt. According to the Senate Agriculture Committee Report No. 98-27, the President's decision to impose U.S.-flag requirements was inconsistent with the long-standing interpretation of the U.S. Government that cargo preference applies only to transactions of substantial foreign aid or assistance.

It is estimated that the decision to bring this sale under cargo preference requirements will cost the USDA an additional $30 million. This is about twice what it would cost if the wheat were shipped on foreign bottoms. It is also of interest to note that the Egyptians are not pleased with the cargo preference requirements due to the fact that the American bottoms are less efficient and will cause additional unloading time at the port.

Continued restrictions of this nature on payment-in-kind exports will certainly cause a loss of markets, a loss of farm income, and loss revenue for the U.S. Treasury.

Mr. Chairman, I would like to thank you for the opportunity to make this statement today, and I will be pleased to respond to any questions.

Senator **Trible**. We thank you for being here today and testifying on behalf of the wheat growers.

Next is Mr. Berg.

Mr. **Berg**. Thank you, Senator.

We appreciate the opportunity to present the Farm Bureau's views on S. 1624, the Merchant Marine Revitalization Act of 1983.

American agriculture cannot prosper without continued growth in foreign markets. We export the harvested products from 2 out of every 5 acres of cropland, because our production capacity in agricultural crops is well beyond the ability of our domestic needs to absorb.

In recent years, we have exported two-thirds of the wheat we produce, a similar percentage of rice, over half of our soybeans, a third of our grains, sorghums, and one-fourth of our corn. A third of our tobacco and half of our cotton go to foreign outlets.

Mr. Chairman, the introduction of S. 1624, the Merchant Marine Revitalization Act of 1983 comes at a time when there is great pressure on farm income. Substantial progress has been made on controlling farm costs by bringing inflation down. However, if it becomes law, S. 1624 will reduce farm income by at least $1.1 billion, and it has the potential to decrease farm income by $6.4 billion.

Attached to my statement is an economic analysis of extending cargo preference to U.S. cash export sales of agricultural commodities prepared by the American Farm Bureau Federation's Economic Division. The study presents two alternative applications of cargo preference, the effect of a 5-percent and a 20-percent cargo preference, and the financial and economic impact these requirements would impose on U.S. agriculture.

The findings illustrate the costliness of cargo preference regulations and why U.S. farmers must work not only to defeat this new initiative but also to repeal other cargo preference provisions which increase the cost of this country's food aid programs.

Cargo preference schemes already in effect cost American agriculture and U.S. taxpayers in general millions of dollars annually. A good example of this is the recent Egyptian flour sale, which required that 50 percent of the 1 million tons of flour be shipped on higher rated American-flag vessels. This transaction cost the American people $30 million.

Another bill under consideration today is S. 1616, the Government Impelled Cargo Act of 1983. The farm bureau testified in opposition to a similar bill in the House several weeks ago, the major impetus of the legislation would be to provide a program of Government assistance to the U.S. merchant marine, the U.S. merchant seamen, and the U.S. shipbuilding industry. Since the legislation would expand the application of cargo preference still further, even to the encroachment on commercial transactions and shipments, we oppose S. 1616.

The Department of Agriculture's commercially oriented credit and credit guarantee programs, which include the blended credit program, facilitate sales at the best terms and conditions which are available on the world markets and are not subject to Public Law 664. These programs are essential to meet competitive conditions in commercial overseas market.

Since the blended credit program began in late October 1983, 7 million metric tons of commodities have been contracted for sale under the program. If cargo preference was applied to these sales, 3 million metric tons, 50 percent of seven, would be required to move in American flag vessels. This would likely increase shipping costs by $175 to $210 million. Fortunately, the Martime Administration has recently announced that cargo preference will not become a requirement for the blended credit program, otherwise the program's attractiveness to foreign buyers would be completely revoked.

Current estimates provide that the blended credit program allows an effective price discount of about $4 to $6 per ton of grain. Increases in shipping costs due to cargo preference requirements would completely overshadow these discounts, and no additional grain would be shipped.

S. 206, another bill under consideration by the committee, will increase the role of the Secretary of Transportation by giving the Secretary sole responsibility for determining what Government programs are subject to section 901 of the Merchant Marine Act of 1936.

Because of the substantial impact of agricultural commodity exports on net farm income, we believe the Secretary of Agriculture should have the responsibility in determining the manner in which agricultural commodities are moved into international markets.

Public Law 480 is the basic programs in which the U.S. Department of Agriculture purchases food, which we have in excess, and sends it abroad. It is the major program for providing outright donations of food to alleviate famine and to encourage economic development.

The U.S. bulk fleet needs agricultural exports, including Soviet grain purchases, and the Department most responsible for these export programs is the Department of Agriculture. Therefore, we oppose legislation that would grant the Secretary of Transportation the sole responsibility for determining and designating those programs which are subject to section 901 of the Merchant Marine Act of 1936.

Since S. 188, requiring that certain mail of the United States be carried on vessels of U.S. registry, does not impact on agricultural commodities, we have taken no position on this bill.

Since we have been asked to limit our summary to 5 minutes, Mr. Chairman, time will not permit me to detail our recommendations as to how we could revitalize the U.S. merchant marine. However, I have made a recommendation in my prepared statement, and I hope that the members of the subcommittee will have time to review it.

This committee, and several other committees of the Congress are properly concerned in regard to maritime alternatives that will enhance and enlarge our merchant marine and thereby improve our national security. Merging the U.S. merchant marine with the Military Sealift Command, and the Military Traffic Management Command into one unified, integrated, intermodal transportation system would not only help agriculture and other commercial shippers, but it would also help insure Department of Defense transportation needs and services.

This suggestion is not official farm bureau policy, and I want to emphasize that, Mr. Chairman, but simply an idea which we believe might help improve our sealift capability. We offer this suggestion in the hope that Congress will consider some alternative, rather than continue to hinder and harass agriculture, one of the Nation's most productive industries and the most important customer of the U.S. merchant marine.

We thank you for the opportunity to testify, and we will, of course, be happy to answer any questions.

[The statement follows:]

STATEMENT OF GEORGE L. BERG, JR., ASSISTANT DIRECTOR, NATIONAL AFFAIRS DIVISION, THE AMERICAN FARM BUREAU FEDERATION

Farm Bureau is the largest general farm organization in the United States with a membership of 3.3 million families in 48 states and Puerto Rico. It is a voluntary, non-governmental organization and represents farmers who produce virtually every agricultural commodity.

We appreciate the opportunity to present Farm Bureau's views on S. 1624, the Merchant Marine Revitalization Act of 1983.

In January 1983, the elected voting delegates of the member State Farm Bureaus adopted the following policy:

"Since cargo preference requirements make U.S. farm exports less competitive in world markets, we oppose any cargo preference legislation that applies to agricultural products.

"We also oppose the cargo preference provision of maritime agreements such as those with the Soviet Union and the Peoples Republic of China which require that one-third of their U.S. grain purchases be transported on U.S.-flag vessels. Added costs of shipping on higher cost U.S.-flag vessels discourage U.S. commodity purchases and put the United States in the position of a residual supplier."

American agriculture cannot prosper without continued growth in foreign markets. We export the harvested products from two out of every five acres of cropland because our productive capacity in agricultural crops is well beyond the ability of our domestic needs to absorb. In recent years, we have exported two-thirds of the wheat we produce, a similar percentage of rice, over half of our soybeans, a third of our grain sorghums and one-fourth of our corns. A third of our tobacco and half of our cotton go to foreign outlets.

Mr. Chairman, the introduction of S. 1624, the Merchant Marine Revitalization Act of 1983, comes at a time when there is great pressure on farm income. Substantial progress has been made on controlling farm costs by bringing inflation down. However, if it becomes law, S. 1624 will reduce farm income by at least $1.1 billion and has the potential to decrease farm income by $6.4 billion.

S. 1624 requires all exporters and importers of bulk commodities in the foreign commerce of the U.S. to ship 5 percent of their cargoes on U.S.-flag, U.S. built ships. That proportion would increase by 1 percent each year until a minimum level of 20 percent of all U.S. bulk commodities are carried on U.S. flag ships. The stated purpose of the bill is to strengthen our national defense by providing a bulk fleet capable of serving as a naval and military auxiliary in time of national emergency. Another stated purpose is to revitalize our shipbuilding industry and to provide jobs for minority workers.

Rather than allow us to reach these objectives, cargo preference requirements would have adverse effects on the U.S. maritime and ocean freight shipping industries. Attempts to guarantee market shares and artificially maintain shipping costs without regard to economic realities of world ocean freight costs only perpetuates the American fleet's inability to compete with foreign vessels by increasing the supply and reducing the demand for U.S. ocean transportation services.

The history of cargo preference shows no record of success in developing and maintaining a strategic U.S. fleet available for use in time of national emergency. If the military goal of developing a strong merchant marine fleet is a national priority, then outright subsidies for ship construction should be considered. Logically, these subsidies should come from general revenues or from the budget of the Defense Department, but the costs should not be borne by the American farmer in terms of lost foreign markets.

Attached to my statement is an economic analysis of extending cargo preference to U.S. cash export sale of agricultural commodities, prepared by the American

Farm Bureau Federation's Economic Research Division. I will briefly summarize the analysis for the benefit of the Committee, but I sincerely hope that each member of the Committee will study the analysis in detail. The study presents two alternative applications of cargo preference. The effect of a 5 percent and a 20 percent cargo preference and the financial and economic impact these requirements would impose on U.S. agriculture. The findings illustrate the costliness of cargo preference regulations and why U.S. farmers must work not only to defeat this new initiative but also to repeal other cargo preference provisions which increase the cost of this country's food aid program.

The analysis assumed that transportation costs are likely to increase by $40 to $80 per ton for grains shipped in American flagships. Extending cargo preference requirements to agricultural trade would substantially reduce agricultural exports and farm commodity prices. This is in direct conflict with overall U.S. economic policy objectives of expanded agricultural exports and higher farm incomes.

Increased shipping costs, resulting from cargo preference, would not be passed on to the foreign buyer. Foreign buyers would purchase their commodities in the world market at competitive prices without paying the additional transportation charges. The world marketplace would force domestic grain prices in the U.S. to remain competitive. Therefore the increases in shipping costs would then be transferred along the marketing chain to U.S. farmers in the form of reduced exports.

Additional shipping and transportation costs associated with cargo preference regulations are likely to be divided unequally between farmers and foreign buyers. However, if all of the increased shipping costs associated with a 5 percent cargo preference requirement were passed on to the farmer in the form of reduced exports, and these export reductions came during the 1982/1983 crop year, the season's average price would be reduced by 10 cents per bushel for corn, 10 to 15 cents per bushel for wheat, and 10 to 13 cents per bushel for soybeans. If a 20 percent cargo preference was applied, the season's average price would be reduced by 28 to 42 cents per bushel for corn, 38 to 61 cents per bushel for wheat, and 39 to 53 cents per bushel for soybeans.

Cargo preference schemes already in effect cost American agriculture and U.S. taxpayers in general, millions of dollars annually. A good example of this is the recent Egyptian flour sale which required that 50 percent of the 1 million tons of flour be shipped on higher rated American flag vessels. This transaction cost the American people $30 million.

Another bill under consideration today is S. 1616, the Government-Impelled Cargo Act of 1983. Farm Bureau testified in opposition to a similar bill in the House several weeks ago. The major impetus of the legislation would be to provide a program of government assistance for the U.S. merchant fleet, the U.S. merchant seaman, and the U.S. shipbuilding industry. Since the legislation would expand the application of cargo preference still further, even to encroachment on commercial transactions and shipments, we oppose S. 1616.

In Fiscal Year 1982, U.S. flag vessels carried 1.9 million metric tons of Public Law 480 Title I/III cargo, representing 50.1 percent of the total tonnage approved by USDA for that year. So that Public Law 480 recipient countries would not have to bear the higher cost of U.S. flag vessels, USDA approved $98 million in payments out of Commodity Credit Corporation Funds to U.S. shipping companies in Fiscal Year 1982. The higher costs averaged about $52 per ton. The combined value of these ocean freight differential payments over the past five years has amounted to $387 million. Commodity allocations for Fiscal Year 1983 amount to 4.14 million metric tons of Public Law 480 Title I/III commodities. Fifty percent of the 4.14 million metric tons Public Law 480 allocation is 2.07 million metric tons of cargo that would be subject to cargo preference requirements. Shipping costs for the 2.07 million metric tons of cargo which is currently required are estimated to increase by $107.7 million.

The Department of Agriculture's commercially oriented credit and credit guarantee programs, which include the blended credit program, facilitate sales at the best terms and conditions which are available on the world markets and are not subject to Public Law 664. These programs are essential to meet competitive conditions in commercial overseas markets. Since the blended credit program began in late October 1982, 7 million metric tons of commodities have been contracted for sale under the program. If cargo preference was applied to these sales, 3 million metric tons (50 percent of 7) would be required to move in American flag vessels. This would likely increase shipping costs by $175 to $210 million. Fortunately, the Maritime Administration has recently announced that cargo preference will not become a requirement for the blended credit program, otherwise the program's attractiveness to foreign buyers would be completely revoked. Current estimates provide that the blended credit program allows an effective price discount of about $4 to $6 per ton of grain. Increases in shipping costs due to cargo preference requirements would completely overshadow these discounts and no additional grain would be shipped.

The Congress gave the Secretary of Agriculture one of the best tools at his disposal, to counter the export subsidies of the European Community, when it authorized the blended interest export credit program. S. 1616 would kill the blended interest program. The blended interest export credits simply would not be utilized if cargo preference was applied to such shipments because the additional ocean freight charges would far exceed the interest savings. We would then have no way to meet the subsidized competition of the European Community which is distorting trade in agricultural commodities and products by subsidizing not only the price of their exports, but also the export financing of them.

S. 206, another bill under consideration by the Committee, will increase the role of the Secretary of Transportation by giving the Secretary sole responsibility for determining what government programs are subject to Section 901 of the Merchant Marine Act of 1936.

Mr. Chairman, agricultural technology and trade patterns today have made farming one of our most productive industries. The United States is one of the very few countries that can afford to export a large volume of agricultural commodities without materially affecting domestic consumption. Exporting, especially agricultural commodities, is vital to the American economy. It is advantageous to farmers because they can produce at levels above those required to meet domestic consumption, thereby enhancing their earning power and increasing farm employment. The export of farm commodities also benefits the nation because it is one of the few industries which consistently contributes positively to our balance of payments.

Because of the substantial impact of agricultural commodity exports on net farm income, we believe the Secretary of Agriculture should have the responsibility in determining the manner in which agricultural commodities are moved into international markets. Public Law 480 is the basic program in which the U.S. Department of Agriculture purchases food, which we have in excess, and sends it abroad. It is the major program for providing outright donations of food to alleviate famine and to encourage economic development. The U.S. bulk fleet needs agricultural exports, including Soviet grain purchases, and the department most responsible for these export programs is the Department of Agriculture. Therefore, we oppose legislation that would grant the Secretary of Transportation the sole responsibility for determining and designating those programs which are subject to Section 901 of the Merchant Marine Act of 1936.

Another proposal under consideration today is S. 188, a bill to further the development and maintenance of an adequate and well balanced American Merchant Marine by requiring that certain mail of the United States be carried on vessels of U.S. registry. Since this legislation does not impact on agricultural commodities, we have taken no position on this bill.

When we testified before the House Merchant Marine Committee in June, we were asked by several members of the committee for suggestions or recommendations as to how we might improve the sealift capability of the U.S. Merchant Marine. Farm Bureau does not have any official policy with respect to rebuilding or revitalizing the Merchant Marine. and any policy of this nature would have to be considered and approved by the voting delegates of the member state Farm Bureaus.

Our members do recognize, however, that the use of the sea is essential to the nation for political, economic and military reasons and, therefore, see the need to fully review the policy options for the future of the Merchant Marine. One option would call for greater use of U.S. merchant ships to perform auxiliary functions presently being performed by Navy ships such as fuel and logistic supply, cargo transport, missile range and space support, research, etc. This use of our Merchant Marine fleet should increase our sea power, free naval forces for other military duties and reduce federal expeditures.

We have witnessed several wars during the past forty years where the Merchant Marine had to operate with the Navy for protection and provide the sealift necessary to support and protect military forces overseas. If the Navy and the Merchant Marine can operate together during wartime, there might be ways to operate during peacetime.

In peacetime, the Merchant Marine would continue to provide commercial type services to international markets in addition to supplying, refueling and servicing the more than 1,200 U.S. military bases we maintain throughout the world. There is a need for a unified, integrated, intermodal transportation system that would not only help agriculture and othe commercial shippers but would also help meet and ensure Department of Defense Transportation services. This system might be obtained by merging the U.S. Merchant Marine, the Navy's Military Sealift Command (MSC) and the Army's Military Traffic Management Command (MTMC), provided it does not further interfere with market forces. As of December 1, 1982, the Military Seaflift Command controlled a fleet of 137 ships. The Military Seaflift Command is heavily dependent on foreign vessels. The Command chartered 165 tankers between 1980 and 1981, 60 percent of these tankers were foreign flag vessels because American flag tankers were not available.

The Military Traffic Management Command is the liaison between defense shippers and commercial, as well as defense carriers. It is responsible for managing the worldwide network of military export cargo offices and for managing the Department of Defense worldwide personal property movement and storage program. It provides interface between military shippers, civilian transportation industry and the military airlift and sealift commands.

Mr. Chairman, merging these three components into one single, unified integrated, intermodal transportation system is not a new idea but it is an idea that should be reviewed and publically debated. Any system should place the U.S. Merchant Marine in a better position to compete in world commerce, by responding to market conditions, to support national interests,and be available as a naval and military auxiliary in time of war and national emergency.

Again, I wish to emphasize that these options are not official Farm Bureau policies. Undoubtedly, there could be some difficulties with these suggestions that we have not fully explored. Nevertheless, we make these suggestions in the hope that the Congress will consider various alternatives to our maritime problems rather then continue to hinder or harass agriculture, one of the nation's most productive industries and the most important customer of the U.S. Merchant Marine.

Mr Chairman, this concludes my prepared remarks. I would be happy to answer any questions that you or other members of the Committee may have.

Attachments.

AN ECONOMIC ANALYSIS OF EXTENDING CARGO PREFERENCE TO U.S. CASH EXPORT SALES OF AGRICULTURAL COMMODITIES [1]

(By Bruce J. Blanton, Economic Research Associate, AFBF Economic Research Division)

SUMMARY FINDINGS

The proposed cargo preference rules will reduce farm income by at least $1.1 billion and have the potential to decrease farm income by $6.4 billion. The economic analysis in this paper indicates that cargo preference requirements will have a direct and predictable negative impact on the U.S. farm economy. Shipping and transportation costs were assumed to increase by $40 to $80 per ton for grains shipped in American flagships under the proposed legislation. Extending cargo preference requirements to agricultural trade would substantially reduce agricultural exports and farm commodity prices. This is in direct conflict with overall U.S. economic policy objectives of expanded agricultural exports and higher farm incomes.

Extending cargo preference to all exports and imports including farm commodities would decrease agricultural exports, reduce farm income, increase federal farm program costs, nullify the blended credit and export PIK programs, increase the effective or landed costs of agricultural commodities to foreign buyers and decrease jobs in the transportation and export industries. Extensively appling cargo preference requirements to agricultural exports will further lead the United States into becoming a residual supplier of agricultural commodities unless world supplies are extremely tight and world demand becomes strong enough to offset the added costs of the cargo preference rules. The outlook, however, is for continued downward demand pressure and expanding world supplies for the major farm commodities. Thus, foreign buyers would be forced to buy agricultural commodities in other markets at competitive prices without paying the additional transportation charges associated with cargo preference.

The following economic analysis shows some of the likely impacts if cargo preference had been applied to U.S. cash export sales of corn, wheat and soybeans in the

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[1] Current issues and debate with respect to cargo preference rules include pending legislation that would require a minimum of 5 percent of foreign trade in bulk cargo in 1984 to be shipped on U.S. built and manned vessels. The percentage would increase each year until a 20 percent minimum is reached on all shipments.

1982/83 crop year.[2] The analysis presents two alternative applications of cargo preference: 5 percent and 20 percent cargo preference. Since moving grain and soybeans in U.S. flag vessels is more expensive than using larger more efficient foreign flag vessels, three alternative scenarios of shipping cost differentials are presented. Alternative shipping cost differentials for bulk corn are assumed to be $40, $50 and $60 per ton. Alternative shipping cost differentials for bulk wheat are assumed to be $50, $65 and $80 per ton. Alternative cost differentials for bulk soybeans are assumed to be $60, $70 and $80 per ton.

A 5 percent cargo preference in effect in 1982/83 would have required almost 6 million metric tons or 226 million bushels of U.S. grain and soybean exports to be shipped in American flag vessels. A 20 percent cargo preference would have required 24 million metric tons or 905 million bushels of U.S. grain and soybean exports to be shipped in more expensive American flag vessels in 1982/83 (table 1).

TABLE 1.—U.S. EXPORTS OF CORN, WHEAT AND SOYBEANS: 1982/83 (ESTIMATED)

Units (millions)	Corn	Wheat	Soybeans	Total
Metric tons	52.1	41.5	25.9	119.5
Bushels	2,050.0	1,525.0	950.0	4,525.0
Exports subject to a 5 percent cargo preference:				
Metric tons	2.6	2.1	1.3	5.9
Bushels	102.5	76.3	47.5	226.3
Exports subject to a 20 percent cargo preference:				
Metric tons	10.4	8.3	5.2	23.9
Bushels	410.0	305.0	190.0	905.0

With a 5-percent cargo preference in effect in 1982/83, increased shipping costs would have likely increased by 286 to 426 million dollars (table 2). A 20 percent cargo preference would have increased shipping costs by $1.143 to $1.704 billion (table 3).

TABLE 2.—INCREASE IN SHIPPING COSTS WITH 5 PERCENT CARGO PREFERENCE

[In millions of dollars]

Scenario [1]	Corn	Wheat	Soybeans	Total increase
A	104.2	103.8	77.7	285.7
B	130.3	134.9	90.7	355.8
C	156.3	166.0	103.6	425.9

[1] Shipping cost differentials for corn, wheat, and soybeans for scenarios A, B, and C are: $40, $50, $60; $50, $65, $80; and $60, $70, $80, respectively.

TABLE 3.—INCREASE IN SHIPPING COSTS WITH 20 PERCENT PREFERENCE

[In millions of dollars]

Scenario [1]	Corn	Wheat	Soybeans	Total Increase
A	416.8	415	310.8	1142.6
B	521	539.5	362.6	1423.1
C	625.2	664	414.4	1703.6

[1] Shipping cost differentials for corn, wheat and soybeans for scenarios A, B and C are: $40, $50 $60; $50, $65, $80; and $60, $70, $80, respectively.

The average farm price of corn in 1982/83 is expected to be $2.55 per bushel; wheat price is expected to be $3.5 per bushel; and soybean price is expected to be $5.55 per bushel. Taking these average farm prices as given, the additional shipping cost resulting from a 5 percent cargo preference is equivalent to 61 million bushels of corn, 48 million bushels of wheat and 19 million bushels of soybeans. The additional shipping costs for a 20 percent cargo preference translates into 245 million bushels of corn, 192 million bushels of wheat and 75 million bushels of soybeans.

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[2] Cotton was not included in this analysis. The tonnage of cotton is small relative to the tonnages of grains moving in export trade. Thus, measurement of the economic impact was beyond the scope of this brief paper.

Given the competitive nature of the agricultural and grain industries in the world, the increased shipping costs would not be passed on to the foreign buyer. Foreign buyers would purchase needed agricultural commodities in the world market at competitive prices without paying the additional transportation charges. Thus, the world market place would force domestic grain prices in the U.S. to remain competitive. The increase in shipping costs would then be transferred back down the marketing chain to U.S. farmers in the form of reduced exports. Competitive forces in the U.S. economy would cause the resulting reductions in agricultural exports to lower farm prices for grain and soybeans. Lower farm prices would decrease farm income.

It is important to note that the reduction in agricultural exports would have a multiplied effect on farm prices. That is, by reducing exports, the U.S. farm economy not only loses out on the sale of agricultural commodities to foreign buyers, but the farm price is reduced by a multiple amount and above the increase in shipping costs. For example, past experience and research indicates that a 100 million bushel reduction in corn exports will reduce the season's average price of corn by $0.17 per bushel and the season's average price of soybeans by $0.2 per bushel. A reduction in wheat exports of 100 million bushels will reduce the season's average price of wheat by $0.32 per bushel and the season's average price of corn by $0.07.

Reductions of soybean exports of 100 million bushels will decrease the season's average price of soybeans by $0.70 per bushel and the season's average price of corn by $0.15 per bushel. In contrast, the increase in shipping costs, when averaged over 1982/83 estimated grain and soybean production with a 5 percent cargo preference rule in effect, would range from $0.01 to $0.02 per bushel of corn, $0.04 to $0.06 per bushel of wheat, and $0.03 to $0.05 per bushel of soybeans. The increase in shipping costs with a 20 percent cargo preference rule in effect would range from $0.05 to $0.08 per bushel of corn, $0.15 to $0.24 per bushel of wheat, and $0.14 to $0.18 per bushel of soybeans.

Additional shipping and transportation costs are likely to be divided unequally between farmers and foreign buyers. However, if all of the increased shipping costs associated with a 5 percent cargo preference requirement were passed on to the farmer in the form of reduced exports and these export reductions came during the 1982/83 crop year, the season's average price would be reduced by $0.07 to $0.10 per bushel for corn, $0.10 to $0.15 per bushel for wheat, and $0.10 to $0.13 per bushel for soybeans. If a 20 percent cargo preference was applied, the season's average price would be reduced by $0.28 to $0.42 per bushel for corn, $0.38 to $0.61 per bushel for wheat, and $0.39 to $0.53 per bushel for soybeans.

Lower commodity prices would have had a direct and predictable negative impact to grain and soybean producers. For example, since corn production in 1982/83 was estimated at 8.2 billion bushels, the $0.07 to $0.10 per bushel lower price would decrease income to corn producers by $574 to $820 milion with a 5 percent cargo preference (Table 4). The $0.28 to $0.42 per bushel decrease in corn price with a 20 percent cargo preference would have reduced income to corn producers by $2.3 to $3.4 billion in 1982-83. The wheat crop was estimated at 2.8 billion bushels in 1982/83. Thus, the $0.10 to $0.15 per bushel lower wheat price with a 5 percent cargo preference would decrease income to wheat producers by $280 to $420 million. A 20 percent cargo preference would reduce wheat producers' income by $1.1 to $1.7 billion, due to the $0.38 to $0.61 per bushel price reduction for wheat. With 1982/83 soybean production at 2.3 bushels, income to soybean producers would be $230 to $364 million lower because of the $0.10 to $0.13 per bushel lower price, assuming a 5 percent cargo preference. The $0.38 to $0.53 per bushel decrease in soybean price with a 20 percent cargo preference would have reduced income to soybean producers by $0.90 to $1.2 billion in 1982/83. The total reduction in farm income resulting from a 5 percent cargo preference requirement of grain and soybeans ranges from $1.084 to $1.604 biliion. A 20 percent cargo preference requirement on grain and soybeans would cause farm income to decrease by $4.257 to $6.371 billion.

TABLE 4

Commodity/scenario	Reduction in exports (million bushels)	Decrease season's average price (dollars/bushel)	Season's production (billion bushels)	Decreased income to producers (million dollars)
Effects of 5 percent cargo preference on farm income:				
Corn/A	41	$0.07	8.2	$574
Corn/C	61	.10	8.2	820
Wheat/A	30	.10	2.8	280
Wheat/C	48	.15	2.8	420
Soybean/A	14	.10	2.3	230
Soybean/C	19	.13	2.3	364
Total scenario/A				1,084
Total scenario/C				1,604
Effects of 20 percent cargo preference on farm income:				
Corn/A	164	.28	8.2	2,296
Corn/C	245	.42	8.2	3,444
Wheat/A	120	.38	2.8	1,064
Wheat/C	192	.61	2.8	1,708
Soybean/A	56	.39	2.3	897
Soybean/C	75	.53	2.3	1,219
Total scenario/A				4,257
Total scenario/C				6,371

Reduced exports and lower farm prices would have a major impact on the cost of government programs. Government farm program costs would have increased in 1982/83 if cargo preference was applied. Cargo preference schemes already in effect cost American agriculture, and U.S. taxpayers in general, millions of dollars annually. As farm prices are further discounted by cargo preference rules, government storages and deficiency payments will increase. The government's cost of applying cargo preference to cash or commercial exports would increase the burden on taxpayers for farm price and income supports.

Based on this economic analysis, cargo preference rules should not be applied to the blended credit program or to any future export PIK sales. If the export PIK program provision and the blended interest export program are to be effective, it is essential that these programs be given the opportunity to accomplish their original objectives. Applying cargo preference to these programs would completely nullify their effects because cargo preference will raise the cost of buying U.S. commodities and substantially reduce U.S. agricultural exports.

If cargo preference is applied to agricultural exports, the two hands of the U.S. government would be operating in opposition to one another. The government would be using one hand to increase and promote agricultural exports through the blended credit and export PIK programs. The proverbial other hand would be setting the stage to substantially reduce agricultural exports with cargo preference. It does not make economic sense to implement such requirements at a time when the United States needs to become more competitive and aggressive in obtaining better foreign market access. One of the greatest risks in applying cargo preference is that after a few years, the United States would find its export markets severely eroded because cargo preference requirements encouraged production in other exporting countries in the world, given price differentials.

Cargo preference requirements would have adverse effects on the U.S. maritime and ocean freight shipping industries. Attempts to guarante market shares and artifically maintain shipping costs without regard for the economic realities of world ocean freight costs only perpetuates the American fleet's inability to compete with foreign vessels by increasfing the supply and reducing the demand for U.S. ocean transportation services. Subsidies to the shipping industry in order to protect the industry are no different than subsidies that guarantee farmers prices above world competitive prices. Cargo preference laws stifle the incentive to invest in newer, more cost efficient vessels. Proposed cargo preference requirements would continue the cycle of never-ending, more expensive subsidies and higher operation costs for the maritime industry similar to government protection of auto and steel industries. These higher costs and inefficiencies are devastating to U.S. competitiveness. Price sensitive raw commodities like agricultural products, which must compete in a world market are particularly vulnerable to this intervention. Both the maritime and the agricultural industries will function more efficiently and enjoy better long-term economic health if shipping markets are left free to allocate resources in response to actual, rather than artificially imposed, economic forces.

Estimates of the added cost of federal regulations on private industry range from $120 to $140 billion annually. In terms of direct displacement or crowding out of private productive investment, there is little economic difference between the $120 to $140 billion and federal deficits of similar magnitude. The President appointed a task force to reduce regulations of the private sector in order to increase economic efficiency and thereby create long-term employment opportunities, increase national trade and raise living standards. The proposed cargo preference rules are in direct conflict with these over all economic policy objectives.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS THERETO

Question. It has been said that "unrestrained trading flexibility" is basic to the bulk sector because the market is characterized by rapid changes in the availability of cargo and the ships needed to carry it. Thus "market rate" instability is created, and a fierce competition environment is fostered.

If our operators are unable to respond effectively to these conditions, and we need a dry bulk fleet for national defense and economic reasons, would guaranteed cargo be a way to help them respond?

Answer. First, Farm Bureau does not accept the premise that U.S. shipping operators need the "market rate" stability afforded by guaranted cargoes. This is a false rationale for subsidies which would guarantee shipping inefficiencies. An alternative would be for the Congress to call for greater use of the U.S. Merchant Marine to perform auxiliary functions presently being performed by Navy ships, such as fuel and logistic supply, cargo transport, missile range and space support, research, and etc. This option would provide cargo assistance which would be at the expense of lost agricultural exports.

Question. UNCTAD code provides a cargo reservation scheme of 40/40/20 for liner conferences. Even the Brussels package recognizes closed conferences and other anti-competitive devices—so there is no free trade. And the UNCTAD formula may eventually be extended to bulk trades so why should we not have restrictive practices—such as cargo reservation?

Answer. The U.S. government has opposed the UNCTAD scheme in international forums. If we adopt "cargo reservation," then we undercut our arugments against the UNCTAD scheme. Guaranteed cargo shares tend to inhibit a carrier's service incentives to the ultimate detriment of shippers and the general public. A protected industry has little motivation to innovate, reduce costs, or to improve service. Regulatory reform legislation is pending in Congress that will update the Shipping Act of 1916. The changes proposed in the reform legislation would help ensure that U.S. flag carriers are not subjected to restrictive rules and regulations like those governing their foreign competitors.

Question. Some opponents of cargo reservation maintain that if national defense is dependent on U.S. flag-vessels, financing for construction and operation of these vessels should be paid out of the defense outlays and shared by all Americans.

Do you agree with this approach?

Answer. If subsidies for building or operating ships are resorted to for the accomplishment of military objectives then such subsidies should come from the budget of the Defense Department. This would be preferable to the distortion of U.S. exports resulting from "guaranteed" cargoes.

Question. Some commodity interests have urged that cargo preference should only apply to U.S. imports. That way our exports would remain competitive in world markets.

If there were no cargo preference for exports, how would U.S. bulkers be assured of cargo on the outbound portion of a voyage?

Would you please comment.

Answer. Both the maritime and the agricultural industries will function more efficiently and enjoy better long-term economic health if shipping markets are left free to allocate resources in response to actual, rather than artificially imposed, economic forces. Both the Merchant Marine and the U.S. shipbuilders should understand that there will be no more government mandated cargo preference of commercial bulk cargoes. This will remove any doubts or hopes of a government bail out and will help them understand that competitiveness must be earned, not legislated. Enactment of the regulatory reform legislation, now pending in Congress, will assure the continuance of reliable, efficient and low cost ocean transportation that is critically important to the future state of the American economy.

Question. According to one source, a recent study conducted by the Center for Naval Analysis estimates that, under the House counterpart to S. 1624, the estimated percentage increase of the landed price of grain would be 1.04 percent. Do you agree?

Answer. No. The Center for Naval Analysis made some absurd assumptions. For example, they stated in the study, "In projecting future trade, it was also assumed that recently perceived patterns of trade growth will continue. As examples, on the basis of recent market analysis, exports of coal and grain, which have been growing at a rate of about 5 percent per year, are projected to continue growing at that rate, at least through 1998." This is an erroneous assumption. Grain exports have been steadily declining since fiscal year 1980. U.S. corn and feed grain exports were 132.576 million metric tons in fiscal year 1980, 128.323 in fiscal year 1981, 107.788 in fiscal year 1982 and 100.3 in fiscal year 1983. U.S. grain exports are not expected to expand in fiscal year 1984.

Also, the Naval study assumed that the shipping cost differential between a U.S. and foreign flag shipper was only $2.11 per ton. This is much too low. Figures obtained from the transportation studies group, USDA-ERS, show that shipping rates can be up to three times higher for U.S. vessels. For example, in the first and second quarters of 1982, with a U.S. Atlantic Coast origin and Egypt destination, the average U.S. flag shipping rate for bulk grains was $83.02 per ton and $79.29 per ton, respectively. The average foreign flag shipping rate was $19.44 per ton and $20.12 per ton, respectively. This is a differential of $63.58 and $59.17 per ton more, or 327 percent and 294 percent higher. Clearly, $2.11 per ton differential does not square with the known facts.

When cargo preference was applied to the Egyptian wheat flour sale, it increased shipping cost by $60.00 per ton.

These examples demonstrate why the Naval's study estimate of 1.04 percent increase in the landed price of grain is ridiculously low.

Question. It has been said that cargo reservation places the burden of subsidizing the U.S. merchant fleet on one class, i.e., shippers.

If it is in the national interest to have a strong Merchant Marine, would you favor subsidizing it through adequate levels of CDS and ODS? In that event, the cost of subsidy is borne by everyone.

Answer. If it is determined that the U.S. Merchant Marine is to be subsidized, we believe it should be a line item in the federal budget where each member of the House and Senate would have an opportunity to vote for or against the appropriation on an annual basis, similar to the manner in which Congress votes on all other appropriation bills.

Question. Is it accurate to say that the transportation cost premium that must be considered in weighing the merits of cargo reservation is the additional cost that would actually be seen by the purchaser of the commodity in question? And this cost is not the marginal cost per ton advanced by opponents of cargo reservation, but the marginal cost spread over all the trade in the affected commodity. In other words, shippers could not add the cost premium only to that portion of their business carried on U.S. vessels. Rather, they would increase the cost of all of their shipments to cover the additional cost of the reserved portion.

Answer. Given the competitive nature of the agricultural and grain industries in the world, increased shipping costs because of cargo preference requirements could not be passed on to the foreign buyer. Foreign buyers would purchase needed agricultural commodities in the world market at competitive landed cost prices. They would simply not buy from supplying countries that had shipping requirements that forced landed costs above those of competing suppliers. Thus, the world marketplace would force domestic grain prices in the U.S. to remain competitive. Sales could not be made unless the increase in shipping costs were transferred back down the marketing chain to U.S. farmers in the form of reduced prices. Lower farm prices would further decrease drastically low farm income.

Senator TRIBLE. I appreciate your positive recommendation, and I can assure you that we won't hold you responsible for it.

Mr. BERG. Not the federation, but you can hold me responsible for it.

Senator **Trible**. Perhaps we can benefit from your idea.

Mr. Berg, in your economic analysis attached to your statement, you assert that shipping costs would increase $40 to $80 per ton for grain shipped on U.S.-flag ships. Is this analysis based on the Public Law 480 program?

Mr. **Berg**. I don't know exactly where you picked that up, Senator, but I believe it was on the Public Law 480 program; yes.

The analysis, as I mentioned, was prepared by the farm bureau's economic research division, and they spent a great deal of time preparing the study, almost a week. It was headed by several economists.

Senator **Trible**. I always value the input of economists. But it is important to understand the underlying assumptions in order to determine whether these things are worth anything. I would assume, as you do, that it is based on the experience in the Public Law 480 program. If so, I would suggest that the figures are hopefully skewed, because the Public Law 480 program simply does not reflect the economics of S. 1624.

Let me ask you a further question. Were these figures adjusted to reflect the 20-percent cost savings mandated by title I of S. 1624?

Mr. **Berg**. No; I don't believe they were. These are the same figures we submitted along with our testimony in the House. However, we are not impressed with the 20 percent. If you are talking about 20 percent of a cost that is 300-percent higher in the world market, it is not of much significance.

Senator **Trible**. Mr. Berg, did your figures take into account the tax credits of title II as a decrease in cost?

Mr. **Berg**. Not this economic analysis.

Senator **Trible**. Mr. Berg, I would suggest that the economic analysis that you put forward here today is totally worthless. It does not at all respond to the realities of the legislation before this committee. The farm bureau, an organization that I have the utmost respect for, ought to be ashamed of itself to put forward an economic statement that has no relevance to the legislation before this committee.

The only testimony before this committee relative to cost studies that have been based on the provisions of the legislation at issue here are the studies of Mr. Drozak's union, admittedly an interested party, and the cost studies put forward by the Center for Naval Analysis, and that is the Navy's thinktank, that is not a group that has any self-interest here at all. Their analysis is that the House version of this bill would increase the landed price of American grain exports by only 1.04 percent.

Now this would be substantially less, under the provisions of this bill, because this bill requires as a precondition a 20-percent savings as opposed to a 15-percent savings in the House bill. Moreover, it provides for a tax credit to offset further any differential that might exist.

The question that I have, How can your estimates be so different from the estimates of the professional study done by the Center for Naval Analysis, and those done by Mr. Drozak's union? It is very evident to me that the answer to that is that you pulled the figures out of the air. The economic assumptions, the methodology, the facts that you have adopted bear no relevance whatsoever to the legislation before us, and that is a disservice to this committee.

Mr. Berg. Senator, I don't think that it is a disservice to the committee. Our economic research division looked at these bills that are being introduced. We were asked to come here and testify on four different bills. The bills are very similar. S. 1624 and S. 1616 are very similar to legislation that is pending in the House.

I have attached this economic analysis to my statement just so that you have an idea of what cargo preference will do to agricultural exports. That is what we are concerned about. Whether you have a 15 or 20 percent doesn't make a whole lot of difference. Decreased agricultural exports would put us in a real bind. It puts us in the position of being a residual supplier. Foreign buyers will buy from us when they can't buy anywhere else, and that is what the purpose of this legislation is all about.

Senator Trible. That economic analysis serves no useful purpose. I would invite you to review the record of this proceeding, to review the detailed study of the Center for Naval Analysis, and to review the study put forward by the Maritime Union, and to the trades department of the AFL–CIO's economic model. Then I would invite you to respond to those, and I would ask you to be responsive to the legislation before us.

Our inquiry is to get at the facts. Before this committee acts responsibly, we have to know how much this bill will cost, and I want to know that just as much as you do. What I am simply saying is that to come here and assert, without any documentation, that the sky is going to fall serves no useful purpose, and it does not advance the legislative process.

So I invite each of you gentlemen, representing your distinguished organizations, to benefit from the record of this proceeding and to come forward with some cost statements that respond to the provisions of this legislation, and to more precisely tell us what the cost consequences will be. If they are anything like you suggest, this committee and this Congress will surely not adopt the legislation before us. But I would suggest that based on what we have heard today that any reasonable person would suggest that your figures are skewed and simply do not reflect reality.

Let me ask you another question. If the tax credits in title II of this legislation were sufficient to fully offset whatever increased costs there might be, as great or as small as they might be, what would your position be on this legislation?

Mr. Berg. I think American Farm Bureau would continue to oppose it because we oppose any legislation requiring cargo preference, or having anything to do with cargo preferences as it affects agricultural commodities.

Senator Trible. Fair enough.

You haven't mentioned the capital construction fund provisions in title III of S. 1624. Do you have any special opposition to that?

Mr. Berg. No, Senator, I don't think we have any special opposition to that. We recognize that the American merchant marine has received fat subsidies for shipbuilding, and fat subsidies for operating ships, fat subsidies for training personnel.

Senator Trible. Mr. Berg, let's talk about fat subsidies.

Mr. Berg. You are going to go into agriculture.

Senator **Trible**. You are right, and on that note, I am going to bring this meeting to a close. That is the prerogative of the Chair. I think that if any segment of our society has benefited from substantial governmental support, it has been the farm community. Surely, all segments of our economic benefit to some extent.

You know, what we have heard today kind of reminds me of the problem we have in balancing the Federal budget. Everybody wants to balance the Federal budget, but we want it balanced out of somebody else's pocket. Everybody is for a strong merchant marine, but no one wants to work toward that end.

I appreciate your presence here today. You represent incredibly important economic interests. I recognize the concern that exists in the farm community. I have made the points that I have made simply to underscore the fact that I think that concern is largely misplaced, and it simply does not rest on sufficient documentation.

We have laid a lot of facts out on the record, and I would invite you as individual organizations to take to task anything you have heard today. I would specifically invite you to have your economic experts spend another week responding to the provisions of this bill, to picking apart, if they can, the economic analysis of the other two organizations that have come forward and made their cost analysis a part of the record.

Our objective here, quite frankly, is to get at the truth and to find out as precisely as we can, in a rather imperfect world, what the cost of this legislation will be. To that end, I appreciate your being here today, and this meeting is adjourned.

[Whereupon, at 5:25 p.m., the subcommittee adjourned.]

CARGO PREFERENCE

THURSDAY, SEPTEMBER 29, 1983

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE ON MERCHANT MARINE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:20 a.m., in room SR-253, Russell Senate Office Building, Hon. Ted Stevens (chairman of the subcommittee) presiding.

OPENING STATEMENT BY SENATOR STEVENS

Senator STEVENS. Good morning.

I am sorry for the delay. There is a series of conferences and markups. For instance, Senator Trible has been in a markup of the Defense Production Act—oh, he is right here. All right, he just came in.

We have all been in different meetings, and we are delighted to be able to proceed with these hearings.

The first panel on our list involves: Mr. M. Lee Rice, president of the Shipbuilders Council of America; Mr. John L. Roper, president and chief executive officer of the Norfolk Shipbuilding & Drydock Corp.; and Mr. David H. Klinges, vice president for marine construction, shipbuilding division of the Bethlehem Steel Corp.

Good morning, gentlemen. We have three panels this morning. I think they will take some time. I would appreciate it if you could be as succinct as possible. We know you have come here today for this hearing that is very meaningful for all of us.

Do you have a decision as to who would proceed first?

Mr. RICE. Yes, Mr. Chairman. I am going to lead off, and then be followed by Mr. Roper and then Mr. Klinges.

I presume that you would like to hold questions until the three statements?

Senator STEVENS. We would like to do that, Mr. Rice. With the agreement of the other members of the committee, I think that is a good idea. So if you will proceed with your statement, and then we will have questions for all three of you or any one of you.

Senator Inouye has a statement he asked to have inserted in the record.

[The statement follows:]

OPENING STATEMENT BY SENATOR INOUYE

I wish to congratulate the distinguished chairman of the subcommittee for his willingness to undertake the very difficult and often unpopular task of finding a way to revitalize our maritime industry, which is in very serious cricumstances.

In the best of times this is a monumental effort. But at a time when the two essential ingredients for a strong merchant marine—money and cargo—are in short supply, that effort becomes even more complex.

As with every national priority, finding a legislative solution requires balancing many worthwhile and sometimes competing public interest considerations. But reconciled they must be, however long and arduous the job might be. The ability to do so is the genius of our system, and its strength.

The record of these hearings will, I believe, give the committee a much clearer understanding of those considerations as we continue to seek a solution to a most serious national problem.

STATEMENTS OF M. LEE RICE, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA; JOHN L. ROPER III, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NORFOLK SHIPBUILDING AND DRYDOCK CORP.; DAVID H. KLINGES, VICE PRESIDENT FOR MARINE CONSTRUCTION, SHIPBUILDING DIVISION, BETHLEHEM STEEL CORP.

Mr. Rice. Thank you, Mr. Chairman.

I believe it most valuable to you that the oral summary explain the foundation of our arguments in support of cargo preference legislation. Our full testimony, which we request be a part of the record, contains detailed comments on technical issues regarding each of the bills, all of which we support.

The basis of our support for cargo preference is simple: It has the potential to provide sealift assets and provide support for the required shipyard mobilization base. The diminishing availability of sealift capacity and the fact that the shipyard mobilization base is projected to fall even further below the level of capacity and capability, defined under defense guidance as that that must be maintained if the Nation is to be able to mobilize and fight a major global war, places our Nation's security at high risk.

Enemy nations are deterred from taking acts against our vital interests only when they believe that our countering military actions will succeed. In our free society, our adversaries can easily determine that sealift and shipbuilding and ship repair capacity is below that required to meet national security requirements. Therefore, unless action is taken to prevent loss of these vital assets, we should expect that our adversaries, when the time is opportune for them, will initiate acts of aggression against our interests, since aggression is doctrine for achieving their goals.

Ample testimony has been given by military experts to alert the administration and the Congress to the gravity of the risks which we face if we fail to adequately provide required sealift assets and to support the required minimum shipyard mobilization base.

Recent studies made by the DOD and the Department of the Navy and MARAD, even though based on optimistic assumptions, reached definitive conclusions that: The Nation's sealift capacity is marginally inadequate at present and the inadequacy may increase rapidly absent positive corrective actions; and second, naval shipbuilding alone cannot support the required shipyard mobilization base. Indeed, it is concluded that in addition to the expanded naval shipbuilding program, 40,000 production workers must be engaged in commercial work.

In spite of these conclusions, which have been well known for many months, the administration has failed to act. Commercial shipbuilding and repair opportunities continue to decline, a decline encouraged as policy.

At present, the only existing commercial shipbuilding demand is for liner vessels. The administration proposes to export this work to Japan or South Korea, in spite of its conclusion that commercial ships must be built in U.S. shipyards to sustain the required shipyard base. The problem of the shipyard base maintenance is exacerbated as a result.

To build ships, there must be a demand. Cargo preference creates that demand.

Of course, there is a cost to cargo preference. There is always a cost when investments are made to achieve national security objectives; for example, our nuclear weapon development and production facilities, Government-owned rocket and explosive plants, Government-owned aircraft plants and shipyards.

A legitimate question is, Who should pay the cost to provide maritime-related national security assets? Opponents of cargo preference base their opposition to cargo preference as a method of providing national security needs on two points: First, philosophical abhorrence of market interference; and second, the increased cost of exports and imports.

Our answer to these objections is also simple. First, philosophical doctrine is never as important as national security and the preservation of our freedom. Second, we propose that cargo preference of non-Government-related cargoes be based upon cost parity to shippers with the cost of shipping aboard U.S.-flag as compared with foreign-flag vessels.

After considerable thought and analysis, we believe that the most efficient method to achieve cost parity is by providing a system whereby U.S. taxpayers, through a shipper's tax credit, would adjust Federal tax payments to provide parity. If cost parity is provided, exporters and importers surely cannot object to having our Nation achieve national security imperatives.

Yes; our proposal creates a tax expenditure. This is a cost paid by the citizenry at large for security and freedom.

You will ask, what is the cost? The cost is dependent upon a variety of factors which are at present not fixed and are time dependent. They include the number of vessels needed, required support of the shipyard mobilization base beyond that provided by naval and other commercial demand, and, most important, the price at which foreign shipping services will in the future be available.

We remain amazed at the position of the administration in regard to the problem of providing sealift and maintaining the shipyard mobilization base. They wish the problem away. They have made no real analysis of cargo preference, yet reject it out of hand.

Unless the Department of Transportation can transfer the problem to the Navy, it has no solution other than to charge the shipbuilding industry with becoming competitive in world commercial markets. Not only is this not feasible, it does not address the fundamental national security problems.

It is astounding that the administration has not even defined the problem to be solved. We have done it. It is not difficult. Therefore, why not they? My only conclusion is that if the Department of

Transportation properly defines the problem the inevitable conclusion is that present initiatives will be found to compound it, a fact which DOT is unwilling to admit.

Will the Congress and citizens continue to ignore this dismal performance? We trust not.

[The statement follows:]

STATEMENT OF M. LEE RICE, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA

Mr. Chairman and members of the Subcommittee, I am Lee Rice, President of the Shipbuilders Council of America which represents the principal domestic shipbuilders, ship repairers, and providers of equipment, and services to the industry. A copy of our membership list is attached to this statement. I request that our full statement and my summary be included in the record.

We applaud the efforts of the Chairman and of Senators Trible and Inouye in focusing the attention of Congress, through the four bills before the Subcommittee today, on the emerging crisis in national security caused by the parlous state of our shipbuilding and shipping industries. As Mr. Klinges will testify in a few moments, we view the concept of cargo preference as the only workable means to preserve these industries.

In April, in testimony before this Subcommittee, we said:

"We, as shipbuilders, neither have our heads in the sand nor do we expect to be supported without adequate justification. If it is determined that our national needs do not require all of our potential capacity nor require a capability to build commercial vessels, so be it. This broad and far-reaching policy position should, however, not be chosen without due consideration of its consequences. We may never agree with this conclusion. At a minimum, we deserve to know, as does the entire citizenry, that expert knowledge and sound political judgment underlies such a policy decision. This is lacking at present."

The Shipbuilders Council has stated consistently that the Department of Defense, working in concert with other agencies, must define the needs for shipbuilding, ship repair, and sealift determined by the military requirements of our forces in time of conflict. This determination should include all phases of activity ranging from break-out and readying of reserve fleets, new construction of both naval and support vessels and repair of battle damage to the transport of military supplies to distant war zones.

Unfortunately, no law other than section 502 of the Merchant Marine Act of 1936, which has been largely ignored, requires that these tasks be performed with specificity. No recent Administration has determined military requirements and used the results to coordinate maritime policy with defense requirements.

Recently, studies of requirements imposed by military demands for sealift under the President's basic Defense Guidance plan have been determined by direction of the Defense Resources Board. In addition, the Department of the Navy working with the Maritime Administration and other agencies as necessary has studied shipbuilding and ship repair assets which would be required by mobilization before and during a major global war in a study titled "Shipbuilding Mobilization Base Analysis" which is nearing completion. From these studies, many valuable conclusions are drawn. Two conclusions, however, are profound and directly related to this hearing:

First, sealift assets are marginally inadequate to meet needs, particularly during the early surge phase of the war; however, action which can be taken by the government and Allies make the problem manageable.

Second, significant commercial shipbuilding and ship repair industries must be maintained because construction and repair of naval vessels alone will not sustain capabilities required to mobilize for and fight a global war.

Our strategy of deterrence lacks credibility if based upon inadequate shipbuilding and shipping resources.—These conclusions cannot be ignored if defense planning and our principal global strategy, that of deterrence, is to be effective. Deterrence is successful only if enemy nations believe that we can prevail in any military confrontation. On the basis of information readily available in our free society, the military planners of potential enemies can both calculate sealift assets we require in a global war and determine the adequacy of our shipyard capacity to meet the demands of mobilization and a global conflict. Therefore, we cannot expect our strategy of deterrence to work if either sealift or shipyard assets are allowed to shrink below minimum required levels. Maritime policy must be included as a vital element of any analysis of national security need. There is no existing mechanism which controls, related or coordinated maritime policy with defense policy. The President alone is responsible since no delegation of authority or responsibility has been made.

The Navy/MARAD study of the shipyard mobilization base assumes that 119 identified shipyards exist at the beginning of the war with employment in these yards at the level of October 1982. This date is significant only in that it was the datum point which coincides with the initiation of the study. Of these shipyards, nine are public (eight Navy yards and one Coast Guard yard), 27 are major shipyards defined as the Active Shipyard Base, while 83 are repair and small vessel construction yards. Total production workers in October 1982 numbered 165,000 of whom about 52,000 were employed in public yards. Excepting Navy yard employment, approximately 80 percent of total private employment is within the 27 Active Shipyard Base. Further, skilled workers are assumed in the study to be available to all private shipyards as needed. Maximum employment was constrained to not exceed levels of employment deemed achievable through surveys of the shipyards. Facilities, drydocks, graving docks, slipways, marine railways, and building ways are assumed to continue to be in place at the time of the war, but are increased to account for new facilities—principally new drydocks—known to be on order and scheduled for delivery in the next several years. Thus, an inventory of assets and skilled manpower is catalogued as available.

The study next determines tasks which must be performed during the entire conflict. The prime tasks during mobilization and early in the conflict are the breakout of reserve vessels, both naval and commercial, installation of defense equipment in these vessels (as well as to those in the active fleets as necessary), and the acceleration of naval overhaul and construction then underway. As the war progresses, the shipyards add the work associated with repair of battle-damaged vessels and begin the construction of new naval vessels and merchant vessels which are needed both to replace vessels lost during the conflict and to demonstrate our firm commitment to defeat the enemy. Beyond the first six months of the war, shipyard employment is increased in both the public yards and in private yards reaching a peak of 225,000 production workers early in the second year of the war. Thereafter, employment levels which are determined by the war scenario assumed in the study decline with reduced demand.

It is highly significant to the study that 110 yards, including the 27 Active Shipyard Base yards, are available to perform mobilization and fleet readiness tasks during the first six months. Nearly all of these yards are fully occupied by critical demands. It is further assumed that other facilities would be used to construct the small boats, landing craft, and other equipments needed and that specialized yards would support offshore oil industry needs. Later, as the nature of the work shifts to a mix of vessel repair, battle-damage repair and new construction, a number of the small repair yards are released to perform tasks other than fleet readiness and repair. Without the availability of the 110 yards, including those in the 27 Active Shipyard Base, which, we repeat, are manned at the October 1982 level, mobilization and early conflict tasks cannot be accomplished.

Following the initial phase of the war, construction of neither the desired number of new naval combatants nor merchant vessels was found to be possible. The failure to meet the imposed shipbuilding demand is the result of both lack of suitable facilities ans shipyard qualifications and experience. Further, ship construction rates are significantly constrained by the availability of critical components.

As we have pointed out, employment in shipyards is declining rapidly as the backlog of commercial work is completed. By year end, commercial workload within the 110 yard base is expected to sustain only about 15,000 workers. Under present policies, a further decline is predicted such that employment levels in the private shipyards will be about 40,000 below the levels required by mobilization tasks throughout the second half of this decade and beyond. To prevent such a capability shortfall, commercial programs must exist which will sustain employment at adequate levels. Such commercial work must engage 35 percent of private shipyard employment. The shortfall of manpower assumes full funding of the 1984-1989 naval shipbuilding plan. If, as is likely, fewer new vessels are built, the shortage is exacerbated.

Decline in total shipyard employment, although a valuable statistic, does not completely portray the decline in shipbuilding and ship repair capability that is occurring. With decline in shipyard employment, the remaining work, which is almost entirely new construction and repair for the Navy, will be concentrated in a few major shipyards and repair facilities. Thus, because maintenance of shipbuilding facilities is expensive, it is improbable that unused facilities will be kept in a state of readiness. It appears quite likely that numerous facilities will be abandoned or converted to alternate uses. As a consequence, the assumed shipyard facility count utilized to measure shipyard capability is likely to prove to be very optimistic.

Of great importance is the fact that both engineering departments and production planning and management personnel will be sharply reduced as the commercial work backlog falls. This will occur because the mix of naval construction that will be contracted in the next five years does not require the engineering and management capability which presently exists in the industry. With both reduced new construction demand and workload, the surviving shipyards will not be able to pay the cost of keeping this capability in place. Once the capability is dissipated, it will be both expensive and time consuming to recreate.

Since the Navy/MARAD study assumes that manpower, capability levels and facilities in place in October 1982 will be in place at the beginning of the war, a significant reduction in any one of these assets causes the level of effort to accomplish the required tasks during the war to increase in difficulty and in the required time of performance. Neither the tasks assumed to be accomplished by the study during mobilization nor during the war could be carried out. Indeed, a valid criticism of the study is that the set of assumptions used are universally optimistic. Optimism, however, does not invalidate the conclusions of the study. On the contrary, optimism in the assumptions has the effect of validating the conclusions and requiring more extensive corrective actions.

The overall problem is not trivial. As we pointed out to Secretary Dole in early April, a commercial shipbuilding program which employes 32,000 skilled workers in new construction would build substantial numbers of commercial vessels. For example, if the ratio of direct to indirect workers is 4.5 to one, as is reasonable, and if two classes of vessels are constructed: (1) sophisticated containerships, and (2) modern liquid or dry bulk vessels, then those workers would construct six containerships and 25 bulk vessels per year. The value of these vessels would be about $2.5 billion. The problem our Nation faces is, we repeat, not trivial.

The workable solution.—Mr. Chairman we testify as strong advocates of a systematic process, as envisioned by S. 1624, whereby U.S.-flag ships—built in American shipyards with American labor and American equipment and materials—will be enabled to transport a modest share of U.S. bulk exports and imports as a means of ensuring the availability of maritime and shipbuilding resources in time of crisis.

The Navy/MARAD study defines a required commercial shipbuilding mobilization base which consists of a number of facilities employing 40,000 skilled workers for construction and repair of commercial vessels. Those 40,000 workers are in addition to those who will be employed by virtue of the ongoing program to expand and maintain the United States Navy at a level of 600 ships.

(a) *What are we up against?*—We have no illusions, pretend none and respectfully hope that this distinguished subcommittee is of like mind: The cost advantages of foreign-built, foreign-flag shipping is a reality and must be dealt with in a realistic manner. Freedom has a cost. We believe that our Nation must decide how best to preserve and pay for the shipbuilding and ship repairing assets necessary in time of war. We can, in theory, place shipyard facilities in reserve status to ensure their availability in time of crisis albeit at a significant cost. We cannot, however, maintain the workforce in reserve. In order to maintain the requisite number of skilled shipbuilding workers, technicians, engineers, production planners and managers, we must provide them with shipbuilding and ship repair work. Commercial work cannot endure that essential shipbuilding skills will be retained. Indeed, little commercial work is available as many of our shipyards have found in trying to diversify.

In order to maintain a steady flow of commercial work to the shipyards, commercial ship operators must be ensured a return on their investments. If they are to provide sufficient number of shipbuilding contracts to maintain the mobilization base and maintain their own fleets in readiness to perform the sealift function, they must be reasonably sure that cargo will be available to them so that they can recover their investment through profitable operation. However, they find most markets closed to them.

Eleven of America's fifteen top trading partners, including the top seven nations, engage in cargo reservation to protect their own fleets. For example, France reserves two-thirds of its oil imports and half of its coal imports for French-flag vessels. Saudi Arabia reserves five percent of all oil exports to Saudi vessels and otherwise requires the use of Saudi vessels for all shipments where the Saudi price is equivalent to that offered by a foreign ship. Korea reserves for Korean-flag vessels all major designated cargoes.

The Warsaw Pact nations reserve their cargoes for large state-owned fleets that are used for military, political, and other noncommercial purposes. Since profit making is not a constraint in the operation of those fleets, they are free to charge below-cost rates. The rapid growth of the Soviet fleet and its rate cutting practices have become an increasingly disruptive force in world shipping trades.

Many lesser developed countries are now intent on developing maritime resources. By insisting on bilateral trade agreements, they have made a direct policy link between industrialized nation's desire to expand trade with them and their goal of building a large competitive merchant fleet.

In this atmosphere, an American company wishing to operate profitably in the world market for liner or bulk vessels faces the insurmountable obstacle of a market which has no reserved place for him. With the higher costs attendant to domestic ship construction and operation, his only hope rests on the willingness of the United States to act as many of its major trading partners have in reserving a place in the market for its own fleet.

(b) *How can we maintain the shipyard mobilization base and insure our sealift capability?* S. 1624 focuses on the bulk trades for a specific purpose. The liner industry, by which regularly scheduled ships move high value cargo in increasingly containerized mode, provides ships which, to meet world rates for the movement of cargo on a ton-mile basis, are increasingly using very large non-selfsustaining vessels. Such vessels have low military value. Over three-quarters of the cargo which would have to be moved to support military operations is not easily shipped in commercial containers. Moreover, the special port handling equipment required to load and unload those vessels if they must be employed may not be available in a war zone and thus must be provided by other means.

The bulk ships designed to be produced under S. 1624 would on the other hand, mostly be of direct military utility. A recent study by the Center for Naval Analysis entitled "Defense and Economic Aspects of H.R. 1242" was done for the Department of the Navy. The study can also be used to evaluate S. 1624. It determines that approximately 330 ships would be built, during the first 16 years, of the following types and capacity:

Type/capacity	*Number*
Geared dry bulk 20,000 to 35,000 dwt	214
Geraless dry bulk 40,000 to 60,000 dwt	53
Ore/bulk/oil (OBO) 60,000 to 100,000 dwt	50
Tankers 50,000 to 80,000 dwt	12
Total new ships	329

The study concludes that geared vessels of 35,000 DWT or less tonnage will constitute about 65 percent of the dry bulk ships to be built. These ships would have very high military utility. Further, the OBO and liquid bulk vessels are militarily useful. A strong justification for the approach presented by S. 1624 is provided by these conclusions.

The second element of our mobilization problem is also aided dramatically by enactment of S. 1624. As shown above, current trends will result in a shortfall of about 40,000 skilled shipyard workers in any major mobilization effort. By building the 330 ships estimated to be required in the first 16 years the legislation is effective, some 18-20,000 shipyard workers will be employed. To those workers who are engaged in new ship construction should be added workers in ship repair. All but emergency ship repair should be required to be performed in domestic yards. Repair and survey of these vessels will employ about 1,500–2,000 men on the average during the 16-year period. S. 1624 will substantially aid in providing a needed commercial shipbuilding and repair program.

Many of the groups who will be represented before the Subcommittee will state with justification, that the extra cost of U.S.-flag shipping is imposed upon them by this bill. We believe that it is incumbent upon the Subcommittee to ensure that the costs of the program are not unfairly allocated to anyone. Title III of S. 1624, the tax incentive plan, goes part way in relieving this concern by giving a ten percent tax credit to shippers based on the difference of the average U.S. and foreign flag shipping costs. We are concerned, however, that the current formula is inadequate to relieve the added costs and, in fact, may not be workable.

Under the terms of the bill, the average foreign-flag shipping rate is calculated from an undefined data base. We do not know of any means by which this data base can accurately be defined so as to ensure the intended result. We suggest an alternative.

First, Title III should be revised to provide cost parity with foreign-flag shipping rates. A ten percent tax credit still places a substantial cost burden on importers and exporters. We believe that the tax credit should be computed so as to provide tax credits for the after tax differnce between United States and foreign-flag shipping.

Second, we believe that this can be done with acceptable accuracy in the following manner. At the end of each tax year, each shipper would be able to determine his average cost, per ton-mile, of shipping a particular class of cargo on both foreign-flag and United States-flag vessels. This tax credit should be determined, with respect to each class of cargo, by muliplying the difference between the actual average U.S. cost and actual average foreign cost of the number of tons shipped on the U.S.-flag vessel. By that means, no artificial determination of the world rate would be necessary. In light of such an arrangement, importers and exporters would bear no burden, inequitable or otherwise, by reason of this bill. They should, therefore, have no objection to it.

The study made by the Center for Naval Analysis included suggested changes to H.R. 1242 which, we believe, should also be included in S. 1624 when it is acted upon by this Subcommittee. These amendments are as follows:

I. In section 103, include in the definition of "U.S. flag vessel" the additional conditions that:

(i) the vessel be used solely in the unregulated trades under the Shipping Act of 1916; and

(ii) that the vessel be of not more than twenty years of age.

II. In section 103, redefine "bulk cargo" to mean "cargo transported either in bulk, without mark or count, or in large lots by a vessel engaged in the foreign commerce of the United States which provides unregulated service." This will ensure that the trades not covered by the liner industry will be covered by this bill. Many neo-bulk cargoes should be included which would not be included by the present definition of "bulk cargo";

III. Delete subsection 104(c). Under this provision, a shipper may evade the entire intent of the bill by engaging one or two large ships to carry goods between foreign ports. That provision could be used to significantly reduce the cargo reserved for U.S. vessels under S-1624; and

IV. Redraft such section 104(e) to read:

"For the purposes of this Act, any percentage of bulk cargo shall be measured by the aggregate tonnage of all bulk cargoes within a particular commodity class shipped on account of an importer or exporter on any particular principal trade route in the foreign commerce of the United States", (emphasis on added language).

This will ensure that the reserved percentages are applied across a wide variety of cargoes, a feature which ensures that a diversified, militarily-useful fleet results from the legislation.

We endorse each of these changes and respectfully request that the Subcommittee adopt them.

S. 188—Senator Inouye's bill on carriage of mail on United States-Flag Vessels

The Shipbuilders Council supports Senator Inouye's initiative to restrict eligibility for postal service contracts to carry United States mail to U.S.-flag vessels whenever they are available. Current law, Title IV of the Merchant Marine Act of 1936, provides no such restriction except for mail being moved by sea between points in the United States. This bill is consistent with S. 1616 (discussed below) which would ensure that a greater share of government-impelled cargo was carried on United States-flag vessels.

S. 206—Senator Inouye's bill to increase the role of the Secretary of Transportation in administering Government-impelled cargo programs

The Shipbuilders Council states its support for S. 206 which gives the Secretary of Transportation sole responsibility for coordinating government-impelled cargo programs under section 901 of the Merchant Marine Act of 1936.

Need for a central administration of these programs is imperative. Frequently, agencies which have little interest in or knowledge of the need for the merchant marine go to considerable lengths to avoid the requirement for carriage of goods on U.S.-flag vessels. By establishing a central authority for the administration of these programs, many of these abuses should be eliminated.

However, we must state our support in qualified terms due to the recent performance of Maritime Administration in advising representatives of the maritime community that cargo preference requirements governing the shipment of agricultural commodities financed under the U.S. Department of Agriculture's "blended credit" program will not be enforced. As reported in the August 25 edition of the Congressional Information Bureau bulletin, the Transportation Institute has stated that in a meeting of August 24, the Maritime Administration advised that it does not intend to pursue compliance with the law under that program. We suggest that S-

206 be revised in light of those comments to ensure that the Department of Transportation will not grant administrative exceptions to Congressionally mandated cargo reservation programs.

S. 1616—The Government Impelled Cargo Act of 1983

Section 901(b) of the Merchant Marine Act of 1936 presently requires that 50 percent of all government-impelled cargoes move on American-flag commercial vessels to the extent those vessels are available at "fair and reasonable rates for United States-flag commercial vessels, in such manner as will ensure fair and reasonable participation of United States-flag commercial vessels in such cargoes by geographical areas . . .".

S 1616 would repeal section 901(b) and substitute similar requirements for cargo carriage by U.S.-flag vessels. It would establish a 50 percent reservation for U.S.-flag vessels for waterborne cargo not affecting the national security where the United States buys such cargo for its own account, gives it to a foreign nation, or provides the financing for the cost of the cargo or its shipment. The Shipbuilders Council supports this initiative by Senators Stevens and Inouye. We would, however, suggest certain modifications to the bill.

First, the bill only requires shipment of government-impelled cargoes on United States-flag vessels when those vessels are available at "competitive rates". In order to satisfy this test, a vessel would have to: (1) be of the size and type appropriate for the cargo transported; (2) be capable of meeting the pick up and delivery schedules stated by the agency; and (3) if liner vessels, not changes rates exceeding those established by conferences operating on similar routes with similar cargo. For bulk cargo vessels two different tests are established. Rates are not to exceed 150 percent of world rates for older vessels and are to be "fair and reasonable" for others.

Under the definition of "competitive rates" foreign buyers must not be allowed to force U.S. vessels out of the market by setting up delivery demands tailored to foreign-flag schedules. A mechanism should be built into the bill precluding unreasonable schedules by requiring competitive bidding between U.S. vessels within certain delivery parameters which would add flexibility to the pick up and delivery schedules stated by the government agency. If no U.S. vessel could bid within those parameters, U.S. carriage requirements could then be lifted. In competitive bidding between U.S.-flag vessels, additional credit towards award of a contract could be given for more rapid delivery. Thus, the award could be made, as are many government contracts, on the basis of price and "other factors" such as delivery schedule.

As stated above in regard to Title III of S 1624, we are dubious that a meaningful "world rate" can be either defined or determined. We suggest that the current test of "fair and reasonable" rates for United States-flag commercial vessels be retained with respect to all bulk cargoes regardless of vessel age.

Finally, and perhaps of greatest importance, the current definition of "cargo affecting national security" in Section 7 of the bill fails to include specifically the many minerals, such as bauxite, chromite, iron ore, potash, and 22 other commodities which were identified by the Chief of Naval Operations as essential to the Nation's defense. Some minimum levels of supplies for these materials should be established as necessary to the defense of the country and that minimum be included in the 100 percent reservation to U.S.-flag vessels.

SUMMARY

Mr. Chairman, we recognize that there are many political problems yet to be overcome in enactment of cargo reservation legislation. As always, it is unlikely that we will ever obtain unanimity in government and industry in deciding how serious problems affecting national security can best be solved. Nevertheless, solved they must be or out adversaries may present us with a challenge we cannot answer.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS THERETO

Question. How do you reply to those who say that S. 1624 would not produce the proper mix of vessels needed in time of war or national emergency?

Specifically, "that dry bulkers cannot be used for military cargo without extensive conversion; hence there is no military requirement for this type of vessel." And a similar observation about large tankers.

Answer. A definitive study was made by the Center for Naval Analyses for the Department of the Navy regarding the mix of vessel types which would be created by H.R. 1242. The study's conclusions are valid for S. 1624. It is concluded that the legislation would cause 329 vessels to be built of the following types:

Geared dry bulk 20,000 to 35,000 dwt	214
Gearless dry bulk 40,000 to 66,000 dwt	53
Ore/bulk/oil 60,000 to 100,000 dwt	50
Tankers 50,000 to 80,000 dwt	12

About 65–70 percent were found to be militarily useful. The construction of all vessels supports the shipyard mobilization base and provides seagoing jobs to maintain required seagoing personnel.

Question. The President of the Shipbuilders Council of America was recently quoted as follows:

A very major factor in vessel cost is caused by lack of standards for component design. Further, Navy standards and commercial standards are, in general, not compatible and two areas of activity are required. In contrast, in Japan, shipbuilding operates under the Industrial Standardization Law enacted in 1949.

A worthy MARAD project would be to focus upon the issue of standards and find a solution to a very costly problem.

What steps can the shipbuilding industry take on its own to rationalize the issue of standards?

Answer. The shipbuilding industry, like U.S. industry in general, creates standards through voluntary effort with technical societies. The industry is engaged in standards development through ASTM. Thirteen standards have been published and about 100 are in preparation. In contrast, in Japan, 7,750 industrial standards with 518 shipbuilding standards cover all types of equipments, components and fabrication methods. The Ship Production Committee of SNAME will undertake a review of standards in the near future. Further, the Shipbuilding Productivity Committee of the NAS is studying the subject as a method to reduce the cost of naval vessels.

Industry, working alone, has great difficulty in moving ahead quickly. Substantial costs are involved. Antitrust problems cause the involvement of the technical society.

Question. On January 11, 1982, the Shipbuilders Council of America submitted a position paper to MARAD. Among the recommendations it made was one to "initiate legislation to extend antitrust immunity for shipbuilding transactions involving shipyards, vendors and financial institutions."

Could you be more specific as to the areas of commercial activity where antitrust immunity for shipbuilding activities would be helpful?

Answer. Joint development areas between shipyards and vendors as well as the ability to fix standards would be aided by antitrust immunity. At present, it has been proposed that R&D Partnerships can be created to obtain some forms of immunity. In addition, the Biaggi Maritime Bank would be able to act as general partner in R&D joint ventures.

The most important aspect of antitrust immunity would allow shipyard cooperation in vessel design and joint pricing and fabrication.

Question. Would antitrust immunity for joint bidding by U.S. shipbuilders substantially reduce present costs and delivery time?

Answer. The question assumes that there are commercial ships to be bid. In the present environment, there is little likelihood that yards would bid jointly because each yard needs all the work they can obtain.

In a market where ships in numbers and in continuity are being built, joint bidding could well lower cost if various yards specialized in various ship types.

It is doubted that joint bidding would reduce delivery time.

Question. With respect to series construction reducing the cost of vessels, how many vessels have to be ordered in a series before savings are realized?

Answer. As a general guide, shipyard learning curves tend to flatten after 5 or 6 vessels and decline slowly thereafter. A major factor, however, will be the cost savings which result from volume buying of equipments and components. We judge 8 to 10 ships to be a good series production minimum objective.

Question. Has there ever been any series construction in a U.S. yard?

Answer. Yes, FFG production at Bath and Todd, DE production at Todd and Avondale, Lash vessel production at Avondale, 35,000 dwt tanker production at Bethlehem.

Question. At what point would there be sufficient commercial cargo reserved under S. 1624 to motivate series construction? 1st year after enactment? 2nd year?

Answer. It is predicted that an average of about 20 ships per year would be built. Therefore, it should be expected that series construction could occur from inception. Indeed, series construction is presumed to achieve the cost reduction required.

Question. Many experts have expressed scepticism that the Administration's proposal to permit build foreign by ODS operators will result in any increased number of U.S.-flag ships in our foreign trades, or that it will result in increasing the percentage of our foreign commerce carried by U.S.-flags (now about 4 percent).

The reason for their scepticism stems from another Administration policy which gives ODS only for ships that are built to replace old ships already under ODS contract. In other words, there is no expansion of the ODS program.

Would you please comment.

Answer. Without cargo reservation, U.S.-flag bulk vessels, whether built in the U.S. or abroad cannot compete in world markets. Therefore, no bulk vessels will be built.

There is, at present, a demand for cost efficient container vessels to reduce the cost of U.S. liner operators. In this case, even if the vessels are built abroad, it is highly doubtful that the liner companies, as a whole, can finance needed new vessels. A strategy seems to be developing under which the subsidized liner companies will discount ODS contracts to obtain cash with which to buy foreign built vessels. We believe that the use of government funds to purchase foreign vessels with little prospect that the companies can remain in business without ongoing subsidy is a matter to be investigated.

Question. About 98.9 percent of U.S. dry bulk exports and 96.7 percent of exports carried on tankers are carried in ships provided by buyers. Foreign carriage deprives U.S. economy of jobs in the ship operating and ship construction industries. Adds to the balance of payments deficit; and deprives the government of substantial tax revenues.

Do you know approximately how many jobs are lost; how much is added to our balance of payments deficit; and how much tax revenue our government loses?

Answer. This information is not available to us. However, it is clear that the numbers are large and the effect on balance of payments and jobs is highly important. MARAD should have estimates of the total value of shipping transactions.

Question. Successive Administration's have publicly supported our cargo preference laws, and yet it seems not a year goes by when there is not at least one major instance where these laws have been evaded, or an inter-department conflict arises.

For example, just a few years ago, the urban mass transportation authority was responsible for the purchase of 400 buses constructed in Germany. Many of these buses were being delivered to the United States aboard Soviet-flag vessels until Congress raised the issue of our cargo preference laws.

Then there was the case of the sale of surplus butter to New Zealand through the Commodity Credit Corporation. The Department of Agriculture disagreed with MARAD, and refused to acknowledge that our cargo preference laws applied.

In response to my question at that time, Admiral Shear said he was "not completely satisfied" with the progress MARAD was making to assure that a "fair distribution of that cargo does to U.S.-flag vessels."

More recently, GSA arranged for the purchase of 1.6 million tons of bauxite from Jamaica. Although our cargo preference laws applied, and two U.S.-flag vessels tendered offers to carry the cargo, both were summarily rejected by GSA because of the unique and questionable delivery requirements imposed by that agency. All of that cargo was carried on foreign bottoms.

The bauxite transaction was especially disconcerting because it involved the use of dry-bulk carriers. Although dry bulk cargoes comprise about 40 percent of our foreign trade, less than 2 percent of it moves on U.S. bottoms.

Early this year, the Department of Agriculture entered into an agreement with Egypt whereby flour was purchased by Egypt from U.S. millers at $155 a ton. the U.S. Government in turn provided the millers with grain in sufficient volume for them to make the sale at that price, including a profit.

The Department of Agriculture said our cargo preference laws did not apply; the Department of Transportation said they did. And there the matter stood. The Administration finally ruled that 50 percent of the wheat must go on U.S. ships, but it stopped short of saying that cargo preference laws applied.

Most recently, the Department of Transportation took the position that because the Jones Act applied to the shipment of oil from Alaska to the Srategic Petroleum Reserve (SPR), such shipments may not be counted towards the 50 percent U.S.-flag cargo preference share required of the importation of foreign oil for the SPR program.

The Department of Energy said Alaskan oil should count towards satisfying the 50 percent requirement.

The Department of Justice resolved the dispute in favor of the Department of Energy.

Under these circumstances, doesn't efficiency in government alone require legislation such as S. 206?

Answer. Yes. the bill, however, should require the government to comply with the law. We are shocked that DOT has announced that they will not enforce preference on blended credit programs, thus defying the law.

Mr. ROPER. Mr. Chairman and members of the subcommittee:

I am John L. Roper III, president and chief executive officer of Norfolk Shipbuilding & Drydock Corp. in Norfolk, Va.

Our company is one of the largest ship repair facilities on the east coast of the United States, employing between 3,000 and 4,000 people. We are engaged in the repair, overhaul and conversion of naval and commercial vessels of all sizes and to a lesser extent are involved in building commercial and government vessels of small and medium size.

Our shipyards—we have three plants in the Norfolk area—are included in the 27 shipyards comprising the active shipyard base within the 119 shipyards which comprise the shipyard mobilization base.

The company is a closely held privately owned corporation which has been controlled by my family for 70 years. The company was active in World War I, World War II, Korea, Vietnam, and other actions of our Military Establishment, and each one of these occasions found our company devoting its entire efforts to supporting the U.S. Government and its policies.

We now deplore the fact that virtually no attention is being given to the problems confronting our entire industry and there seems to be no Department of our Government who is interested or concerned in listening to our problems.

Shipyard employment is declining and will continue to do so in the absence of strong legislative action. In 1977, during the last real peak of commercial ship construction and repair in the United States, some 48,000 skilled shipyard workers were engaged in commercial ship construction and repair. Since then, and for a variety of reasons, but including the continued lack of a real national maritime policy, the commercial shipyard workforce has decreased dramatically. By the end of this year, only about 15,000 shipyard workers will be employed in commercial work in the United States. The employment in our yard is a good example. We are down to an average of 2,000 workers from an average of—excuse me, 2,500, from 4,500 a year ago. The 2,000 workers we have had to lay off are effectively gone from our work force.

With less and less commercial work available, and with no growth in naval overhaul repair work, our opportunity to increase employment is not great. In addition, we have had to cancel our 50-year-old apprentice program, which until last year was graduating 100 apprentices a year in the various disciplines required in the shipbuilding and ship repair business.

As Mr. Rice has already testified, the Navy/MARAD shipyard mobilization base study presumes two key points: First, it assumes that skilled workers are available without limit and would be added to most major yards to the limit of facility capacity. Second, it also assumes that that needed mix of skills is available.

Key conclusions of the study are that, absent corrective actions by Government:

In the event of mobilization, the United States is likely to be short 40,000 skilled shipyard workers by the late 1980's;

And, in the event of war, the shipyard mobilization base would have to overcome the shortfall of 40,000 workers and add an additional 60,000 workers in the first year of a major war. Thus, an almost immediate growth of the workforce by 100,000 skilled workers is anticipated after the outbreak of a war.

Over the past 50 years, there has been a lot of fluidity in employment, where shipyard workers could go on heavy construction and when they are recalled come back to the yard. Recently this fluidity of shipyard workers has vanished. Shipyards have found it almost impossible to keep track of laid-off workers. Many of these workers move from the areas of original employment or find more permanent jobs in other industries, or both.

Simply put, in the current market when a shipyard worker is laid off for any extended period, he is gone for good. We specifically question the Navy/MARAD assumption that skilled workers will be available without limit.

During the period when the difficulty in retaining skilled workers has grown, so has the level of skill required to perform much of modern ship repair work. The task of rapidly adding to the workforce in time of mobilization will not be easy. In many areas, there will be great competition for workers.

Training programs take time to establish and time to train personnel. A certified welder cannot be presumed to return to a shipyard and to retain the skills needed for certification without retraining. The same problem exists for many other shipyard skills.

I cannot see how 100,000 workers can be employed, trained and put to productive use within 1 year, assuming they can even be hired. The resources of the industry will be so heavily taxed in simply keeping the current workforce productive that it is doubtful we could quickly employ, train and use that many more people.

In addition to the blue collar workers who would have to be brought on and trained in the first 6 months, we would need the additional number of managers commensurate to that expansion in order to insure the effective use of those workers. Some production level workers can probably be raised to the level of supervisor and supervisors, in turn, raised to lower level managers and so on up the line in the 6 months after the start of any war. However, this would severely tax the efficiency of an overextended industry. In short, I submit, Mr. Chairman, that we must find a way to get a head start on this mobilization work force requirement if we are going to have any hope of succeeding if a global conflict should occur.

S. 1624 will give us the head start we need in maintaining the shipyard work force. As Mr. Rice's testimony indicates, a part of the 40,000 worker shortfall projected in the Navy shipyard mobilization base analysis can be prevented, for a period of at least 15 years, by enactment of S. 1624. From a ship repairer's standpoint, I believe that this bill would alleviate many of the problems faced by both east and west coast shipyards in the present market.

Under current law, U.S.-flag ships are required to have nonemergency repairs performed in U.S. shipyards or pay an ad valorem duty on the repairs done abroad. If we assume even distribution of the 330 ships to be built under S. 1624, about 110 vessels would trade from the east, gulf, and west coast ports each.

On the average, repair and maintenance, including vessel surveys, will require about 10 or 12 man-years of labor per vessel per year. Thus the east, gulf, and west coast fleets should provide jobs for about 3,500 to 4,000 shipyard workers. The work will be a vital support to maintaining the ship repair segment of the shipyard mobilization base.

The Western Shipbuilders Association has filed testimony with this subcommittee supporting S. 1624 and in addition has suggested means to improve the bill to strengthen U.S. ship repair requirements. We support their approach and urge the committee to modify the definition of "U.S.-flag vessels" contained in the bill to require all nonemergency repairs, as well as overhauls, conversions and modifications, to be done in U.S. shipyards.

In conclusion, the ship repairing companies of the United States will be called on, if we have any kind of a war, to grow and perform quickly to prepare Reserve fleets for use, to install defense equipments, and to service and repair the Nation's combatant and commercial fleets. Even under the most optimistic circumstances, our rate of growth and performance will be limited.

We submit that the same logic applies to ship repairers as to shipbuilders: If the nation needs a basic level of response capability from our industry in time of war, and if, as in the present case, this basic level is dissipating rapidly and cannot be maintained without Government assistance, the Congress and specifically this subcommittee have a responsibility to insure that the required base level is maintained.

A workable way to do so is with a comprehensive cargo preference system as envisioned by S. 1624. We strongly support this measure and hope that the subcommittee will act promptly and favorably on it.

Thank you.

Mr. **Klinges**. My colleagues have discussed the problem of maintaining an adequate shipyard mobilization base to serve vital functions required under a national emergency. My statement adds two additional points:

First, if we are to maintain a shipbuilding mobilization base including shipyard facilities and a shipyard work force of sufficient size to function effectively in support of the Navy and the economy in the event of a national emergency, our shipyards must be occupied with shipbuilding work.

Second, a sustained cargo reservation policy must be the driving force behind any commercial shipbuilding program in this country or it most assuredly will fail.

Shipbuilding skills involve much more than a count of workers and facilities. Work must be planned, components and materials purchased, extensive engineering done, and management must cause materials to flow, available manpower and skills to be properly used, and the work that is produced made to conform to requirements.

Thus, not only must a skilled work force be available, but able management, engineering, quality control and planning skills are required. We tend to focus only on the reduction in the count of production workers. Of course, these workers are required, but so are the managers, engineers, cost estimators, et cetera, who are essential to shipyard operations. It is inevitable that reduction in commercial work load will lead to a major loss of these skills.

There are some potential markets which are marine-related and require the broad range of shipbuilding skills. The best example is the construction of offshore equipment. Even if the offshore market were to suddenly become strong once again, there is little reason to believe that it can fill the gap between work performed under Navy contracts and the requirements of the shipyard mobilization base.

In its soon to be published "Shipbuilding Mobilization Base Analysis," a Navy-Maritime Administration team has defined the need for 40,000 skilled shipyard workers, in addition to those occupied by Navy shipbuilding, for time of a mobilization. American has for too long allowed other countries to export their unemployment to our shores. Rather than making our shipbuilding work force busy in competition with other American industries, we should insure that they are engaged in an aggressive shipbuilding program pointed at markets which will provide militarily useful vessels. This is the most efficient way to maintain the skills needed in our industry.

If, as has been shown, the Nation must build ships to provide needed sealift assets and to maintain the required shipyard mobilization base, we must examine what markets can provide shipbuilding opportunity. Three principal markets have supported this shipbuilding in the past. These markets are the offshore equipment market—jackup and floating drill rigs—the Jones Act markets, and the market created by construction subsidies under the Merchant Marine Act of 1936.

The first of these markets shows little vigor, and even if it were rejuvenated, foreign competitors have become an increasingly strong force and will capture a major part of this market.

In regard to the Jones Act market, there is little reason for great optimism, even though the fleet is an old one. Commercial markets are changing rapidly. It has been suggested that we place an age limit on vessels in this fleet as a means to stimulate a Jones Act vessel replacement program. It is probable that such a program would cause some vessels to be built, but it is impossible to predict how many or when. The present fleet was built to serve markets quite different from those that exist today.

To build a vessel with a life of 25 years causes an owner pause when he can predict only near-term employment. For example, Alaskan crude production is expected to peak in this decade and decline thereafter. A decision to build is complicated further because current market rates, when compared with required breakeven rates for new vessels, show great disparity. Moreover, we cannot ignore the fact that many markets which in the past have been served by vessels are provided with alternatives, namely rail, truck and pipeline.

The third market, created by the direct subsidies provided under the Merchant Marine Act of 1936, has essentially disappeared. We know that those direct subsidies have been condemned as ineffective and inefficient. We are not here to argue that point today.

What we are here to say is that some form of government participation, preferably in the form of title III of S. 1624 as modified in the manner described by Mr. Rice, will be necessary in order to preserve the competitive edge American producers need in selling their exports. Without it, American ship operators could not compete in the world market even if they had no cost in acquiring ships.

By tying that tax incentive to a bulk cargo reservation plan, two things are accomplished: First, a substantial portion of the 40,000-worker mobilization work force could be preserved; and second, a mix of militarily useful ships, as opposed to most modern liners, which have lesser military utility, would be built, strengthening the sealift mobilization base.

Alternate markets must be found. The only other markets are either construction of vessels for a national fleet requirement or bulk vessels which will be constructed to trade under the protection of a cargo preference policy. As we have indicated, we strongly support cargo preference as the best solution to a most difficult problem.

The problems that must be faced under cargo preference, however, are also difficult. Cargo preference with cost parity to the shipper provided by a tax credit system is attractive, but it is not without significant cost.

The present debate of maritime policy should, above all, not result only in a limited fix. We should examine how best to provide required sealift assets and maintain the required shipyard mobilization base, both in the near and longer term. It is unlikely that any solution chosen today can solve all problems over the next several decades.

We continue to endorse cargo preference, but are not prepared to assure you that it is the cure-all. For example, the Jones Act market has importantly supported national requirements for many years. Will it efficiently provide substantial vessel construction demand in future years? Should we, as the administration suggests, abandon the construction of commercial vessels intended for international trades?

Maritime policy must deal not with only one segment of the industry, but with shipbuilding, vessel operation, and domestic trading.

In conclusion, we have testified that the national security requires that the problem of the continuing loss of capability and capacity of the shipbuilding and ship repair industry be reversed. Cargo preference offers a workable solution toward providing a substantial amount of shipbuilding opportunity if the program is enacted such that vessel owners and operators are assured that the program will provide satisfactory business opportunities and return on investment.

This requires that the program provide both sufficient profit potential to owners and long term certainty of its continuation. There will be no alternate markets for vessels constructed to trade in cargo preference programs. If owners are not convinced that the program has been adopted as a long term national commitment, then it is unlikely that investments in vessels will be made and the solutions sought to basic national security problems will not have been achieved.

Thank you, gentlemen.

Senator STEVENS. Thank you very much.

I was intrigued by your comment about the Jones Act fleet. How extensive is that fleet now? Do you know how many vessels, Mr. Rice, are considered to be the Jones Act fleet?

Mr. RICE. Yes, there are a good number of vessels in that fleet at the present time, something on the order of 14 million deadweight tons, over 200 vessels.

Senator STEVENS. They are primarily designed to serve my State?

Mr. RICE. It is not primarily designed to serve your State, but your State is certainly the primary user of those vessels today.

Senator STEVENS. One of the reasons I am interested in this whole thing is to find some way to see if we cannot get out of the position of being the only State in the Union that is required to subsidize the shipbuilding industry of the United States. I hope we understand one another on that.

Mr. RICE. We do indeed, sir.

Senator STEVENS. I think you are in terrible shape and you need some assistance. We certainly have a problem in trying to convince the shippers council of this situation.

Have you done any studies to offset those that they presented to us on the impact of these bills on portions of the economy, such as the agricultural economy of the country?

Mr. RICE. Our proposal, of course, encompasses in it the concept of providing cost parity for the shipper. If that is the case, then there is no cost to the shipper for the use of the U.S.-flag vessel. The cost is shifted to the Treasury.

Then you need to look at the question of, what would be the tax expenditure if you do it in our scheme of using the tax credit? What would be the tax expenditure cost that would result from enactment of the bill?

We can make those kinds of calculations, but really it goes back to the fundamental proposition that under cargo preference you would not build ships that were not absolutely necessary to meet the national security requirements. That is not yet really defined. You would then have to make a judgment of how many ships are involved, how many would be built.

Then you have the very difficult problem of projecting over the life of the ship what would be the foreign shipping costs that you would give parity to, because that creates the differential.

If you simply took the numbers of ships that are in the CNA study done by the Navy, where they project over the 16-year period that you would build about 330 ships, that would be an average of 20 ships a year. And if you then simply said that, in a very simple way, 20 ships a year at $60 million apiece, that is $1.2 billion of ship costs.

Then if you were operating, and we go to the end of the program, we are now operating 330 ships under cargo preference. And if you then simply make a judgment that the difference between the U.S. cost and foreign flag cost in that year is about $2 million a ship—that is not an unreasonable number—you would add to the $1.2 billion cost of the vessels another 330 times $2 million, or around $700 million.

So it is around a $2 billion cost, the way we would look at it at this point. Those of course are 1983 dollars.

Senator STEVENS. I know that our friends on the Budget Committee and the Finance Committee will not let us take into account the increased revenues in areas that currently there are no revenues to the Federal Government. But have you had an analysis made of what would happen as far as the revenue base was concerned if we did have increased employment in the shipyards, those people would be paying income taxes, and we took over as a result of the increased shipbuilding the income that currently is paid, the revenues currently paid to foreign vessels?

Has that been completely programed out?

Mr. RICE. We do not have any final answers on that. That can well be done.

If you start with the concept of working from the tax credit point of view, it is a way to get at the answer. There are major offsets. What they really are, we can quite easily make projections for you. We have not done that at this moment.

Senator STEVENS. Well, I would like to have our staff work with the council and try and see if we cannot get some answers and provide them to these people who are here in the Senate who represent these areas that are quite concerned over this legislation.

I particularly believe that, properly analyzed, that this cost to the taxpayers is much less, certainly much less than the current PIK program or other programs that are involved in the areas from where we are getting the complaints about this series of bills.

Mr. RICE. Senator, yes. In direct shipbuilding there would be somewhere between 35,000 and 40,000 men and women employed in the industry, and then the multiplier effect in the other supporting industries needs to be taken into account. We would be quite happy to work with you to try to do that.

The other important factor to remember under our proposal, and I think this is a factor that really should be considered, we are giving a U.S. taxpayer a benefit because the ships are U.S.-flag ships. We think it very important. It does two things: We change the balance of payments on the total expenditure on the transportation transaction. A significant part of that flows back and becomes a credit, rather than an outflow in the United States.

More importantly, we feel that the U.S. shippers should be very involved in transportation transactions. They should not give it away to their customers. They ought to try to control those decisions and make money out of those transactions. And we think that an added advantage of our scheme of using the tax credit is that it makes it very important for the U.S. taxpayer to get involved in that system.

Senator STEVENS. Did you explore the concept that we talked about once before, the CCF for the shipyards themselves?

Mr. RICE. Yes, we endorse that. We think it is a good idea. We think, frankly, that if you do that it will be the device through which you can finally create a diesel engine manufacturing industry in this nation, which we very badly need. We are fully in support of that concept.

Senator **Stevens**. What about a CCF for U.S. currently owned but curently foreign flagged, to bring them home, the U.S. foreign-built, having a CCF which would be useable only in domestic shipyards for replacement?

They are making money out there, but it is out there in the never-never land of Grand Cayman and other places. I think that we ought to bring them back under our laws, give them a CCF and make that CCF expendable only in domestic shipyards. Did you ever look at that?

Mr. **Rice**. I really have not done any calculations of what that would mean to us. We basically start our whole analysis with the driving force being the maintaining of the shipyard mobilization base, which is a requirement for national security. So we tend not to think too favorably about bringing in already built ships because it does not create any employment in the yards.

Senator **Stevens**. If they have a CCF and they are going to replace them soon, it might.

Mr. **Rice**. It is an interesting idea and I would explore that. I have not done that.

Senator **Stevens**. Senator Gorton.

Senator **Gorton**. No questions.

Senator **Stevens**. Senator Trible.

Senator **Trible**. Thank you, Mr. Chairman.

I want to first welcome John Roper and the other distinguished members of this panel. Your written testimony and oral presentation today I think underscore the problems facing our shipbuilding and ship repair industry, and the clear national requirement to do something about it. I think your testimony has been very thoughtful.

As the chairman suggests, it is important for us to fix the cost of this kind of legislation. We have heard from a number of opponents of the bill before this committee. To date I think it is fair to say that we have seen a lot of emotion, but no real cost analysis on their part.

The one study that has been put forward by a totally dispassionate entity, the Navy's think tank, suggests that the cost consequences would be quite minimal and not the huge sums suggested by some of the opponents of this bill, which really have not responded to the provisions of the legislation before this committee.

I am struck by your suggestion that we should as a committee further explore the idea of cost parity, and of course that would eliminate any unfavorable tax consequences—or cost consequences, rather, that might flow from this legislation.

Now, we have tried to respond to the legitimate concerns on the part of shippers and producers of American goods about financial costs, by requiring that as a precondition to a set-aside a substantial cost saving be achieved by your industry. To that end, tell us, if you will, how this kind of legislation will make it possible for you to make those kinds of savings?

I would like you to include in your statement a reference to the present situation where there is no predictability in the building of ships and how that impacts your ability to be effective and efficient in operation, and how serial construction would be a substantial plus.

Mr. KLINGES. Well, the age-old lament of the American shipbuilder is that he has never been, except in time of war, in the position of being able to build vessels serially. There is no continuity of program which would enable a shipbuilder to effect the type of efficiencies that are commonplace in, particularly these days, in Japan and Korea.

Very few of us have had the luxury of building a series of vessels in excess of two or three. Therefore, we are really in the carriage building business. We are building to the specific requirement of a specific owner, and there has been great indisposition on the part of owners to accept a vessel which has been built for one owner as being responsive to the other owner's requirements.

Consequently, we are custom builders, and there is no way, with our inherent disparity of costs, because of our American standard of living and our domestic labor standard of living, that that problem, compounded by building custom-built ships, that we can ever hope to be effectively cost competitive.

What this program will do will be to enable us to develop vessels which will be built in series, and we are talking in terms of a bulk program, perhaps, for instance, a series of 40,000-ton vessels, a series of 60,000-ton vessels, a series of 80,000-ton vessels, that will be a standard. And that will enable us to effect the same types of efficiencies that we did during war-built construction when we were building Victory ships and C-1's and C-2's in series.

But without the ability to have some continuity of a program, we cannot attain a really effective competitive position in an American shipyard. This type of legislation would really solve that problem for us. We would be building standard-type vessels. We would be building them the way they are building them today in Japan and Korea.

We just have not been in the position in this country to be able to afford the luxury of building them that way, because we are only building them for an owner, an owner can only afford 2 or 3 vessels at a time or, when he wants to build a vessel, wants to build them so that he gets 12 vessels within a delivery span of a year or 2 years. There is no American shipyard capable of building that many ships in that kind of a time frame, and of course we are not able to work in concert to respond to that type of a requirement because of the antitrust problems in this country.

So we are between the devil and the deep blue sea. And people stress, why are you not able to do what is done in Japan and Korea? Basically, we are competing against Japan Inc. and Korea Inc., and we are just fighting the fight with our hands tied behind our back.

Senator TRIBLE. American shipyards, however, now have the same kind of technology as the shipyards in Korea and Japan. There is obviously some difference in the weight scale, but as I understand it the primary cost differential flows from the workload and the fact that Japanese and Korean shipyards have predictable procurement and therefore can more effectively and efficiently manage their work force, buy the raw materials that are necessary, and do the job.

Mr. KLINGES. You are absolutely right, Senator. It is not only the problem within the shipyard of having wide variations in the manpower flows, but it means our vendors. All of the industries throughout the United States, the people who are producing the pumps and the valves and the machinery, they are having the same problem, because there is no continuity of work for them either.

So this is not simply a shipyard problem. It is an industry problem. It goes right out to Wisconsin and Michigan, it goes into Missouri and it goes into Texas. Everybody has this problem, that you cannot run a valve factory or a pump factory when you build for three vessels and then shut the place down.

Therefore, those problems create delays in deliveries. You do not have the industrial support to be able to get a pump delivery of that valve that you need. And of course, in Korea and Japan they do know where their orders are coming from and they can maintain a continuity of flow, they can inventory, and they can produce to go and support it.

We just have not got that ability in this country today. We all as shipbuilders cannot miss the opportunity of pointing out to this body the fact that, in the event of mobilization, our support base has been so badly eroded that we question our ability to effectively respond in case of mobilization.

Mr. **Rice**. Senator, I might add, a very important factor in the cost equation in comparing ourselves to the Far Eastern builders, is the simple fact that in Korea labor works for less than half our minimum wage. And when you build a ship, there is no way to build it without putting a lot of man-hours into the assembly of that vessel.

So we start with the very, very difficult problem when we are asked to compete with the Koreans. In world pricing today, the Koreans can make money at world prices. The Japanese cannot. We cannot.

Senator **Stevens**. Thank you very much, gentlemen. We appreciate your cooperation.

Our next panel is: Mr. John Bush, vice president for governmental affairs of U.S. Gypsum, who represents the chamber of commerce today of the United States; Mr. George Miller, director of distribution for the Lubrizol Corp., and chairman of the oceans and international task group of the Chemical Manufacturers Association; Mr. Russell Ward, director of distribution, Gold Bond Building Products Division, National Gypsum; Mr. William H. Banks, president of Chevron Shipping and chairman of American Petroleum Institute's Central Committee on Transportation by Water, accompanied by James A. Cole, vice president of Texaco, Inc.

Gentlemen, we are pleased to have you here. Have I named all of you? Who did I not name?

Oh, Mr. Kelleher. Mr. Kelleher is manager for community development of the chamber of commerce. He accompanies Mr. Bush. Thank you very much.

Gentlemen, I would appreciate it if you would proceed as you wish, in the order that you wish. We have Mr. Bush first on our list, but you can proceed in any way you wish.

STATEMENTS OF JOHN BUSH, ON BEHALF OF THE U.S. CHAMBER OF COMMERCE, ACCOMPANIED BY WILLIAM D. KELLEHER, MANAGER, COMMUNITY DEVELOPMENT SECTION; H. GEORGE MILLER, CHAIRMAN, OCEANS AND INTERNATIONAL TASK GROUP, CHEMICAL MANUFACTURERS ASSOCIATION; RUSSELL F. WARD, DIRECTOR OF DISTRIBUTION, GOLD BOND BUILDING PRODUCTS DIVISION, NATIONAL GYPSUM CO.; WILLIAM H. BANKS, CHAIRMAN, CENTRAL COMMITTEE ON TRANSPORTATION BY WATER, AMERICAN PETROLEUM INSTITUTE, ACCOMPANIED BY JAMES A. COLE, JR., VICE PRESIDENT, TEXACO, INC.

Mr. **Bush**. Thank you very much, Mr. Chairman. It is a great pleasure to be here and I thank you very much for the opportunity to testify on this very vital economic issue.

I am John S. Bush, Jr., vice president of governmental affairs of U.S. Gypsum Co. My appearance here today is on behalf of the U.S. Chamber of Commerce, and accompanying me is Mr. William Kelleher, manager of the chamber's community development section.

The chamber opposes cargo preference legislation such as S. 188, S. 206, S. 1616, and S. 1624. Cargo preference, the requirement to ship U.S. imports and exports on U.S.-flag vessels, will not restore the health of our Nation's merchant marine. It will devastate our ability to compete in world export markets for commodities such as grain and coal, because it results in excessive U.S. shipping costs, unduly raising the final price of goods to other nations. There will be a similar effect on imports and American consumers will pay higher prices for a wide range of products, including items such as gasoline and other petroleum products, as higher transportation costs are passed down the marketing chain.

By reducing our trade capabilities and increasing domestic prices, cargo preference will hinder economic growth and ultimately reduce employment for American workers. Both the construction and operating costs of U.S.-flag vessels are two and a half to three times that of foreign-flag vessels, and that effectively eliminates the American merchant marine fleet from the highly competitive world market for shipping services.

Cargo preference will impose approximately $100 billion in additional shipping costs on the U.S. economy if current cargo preference proposals are enacted into law, or approximately $6 billion annually between now and 1999, when the full weight of the proposed cargo preference is felt. In addition, there are additional costs for the lost jobs and slower economic growth that will result from the effect of cargo preference on domestic production and reduced international trade.

The Department of Commerce estimates that roughly $24,000 in capital investment is required to create one job under current economic conditions. Cargo preference will result in roughly $1.2 million increased costs to our economy per job produced in a sheltered merchant marine. Clearly, cargo preference will result in a shifting of investment capital into areas of greatly reduced productivity, resulting in substantially lower employment per invested dollar.

The imposition of cargo preference by the United States would be completely out of step with the conditions in the remainder of the free world. This type of protectionist activity is not engaged in by our trading partners. If we began a restrictive protectionist process, we would be open to massive retaliation by other countries, with the end result that the market for U.S. shipping would be even further reduced.

Among the most emotional arguments made for cargo preference is its purported benefit to national defense. Those who argue this point claim that the United States needs its own fleet in case of war or other national crisis. This argument has two weaknesses:

First, there is not a shortage of shipping capacity to serve U.S. national defense needs. U.S.-controlled shipping—ships owned by American citizens but built and manned by foreigners—provides more than adequate shipping capacity. This system of U.S.-controlled shipping provided national security shipping needs in both the Korean and Vietnamese wars. There is no reason to suspect that this system will not work in the event of some future emergency.

Second, the types of ships produced by cargo preference are not necessarily those needed for national defense. If specific voids exist for national security purposes, those ships should be built on a contract basis by the Navy and paid for under normal appropriations processes. A $100 billion indirect tax through cargo preference should not be imposed on the entire economy to meet an unspecified need.

All four bills before this subcommittee support the principle of cargo preference to a greater or lesser degree. The chamber opposes all of them.

In conclusion, for both national defense and economic security the United States must have access to a reliable, effective merchant fleet. The current mix of U.S.-flag and U.S.-controlled vessels more than meets those requirements. Attempts to stimulate U.S.-flag shipping artificially by creating government-guaranteed markets will result only in business paying excessive shipping costs, which increases consumer prices and reduces our country's ability to compete in world markets.

U.S. shipping stands at an important crossroad. It can either throw off the old habits that have reduced its share of U.S. import and export shipping 90 percent since World War II and begin to become efficient, productive, and competitive again, or it can hold tight to its old chains and seek further Government protections. The net result of this course will be continued inefficiency and economic ruin for a vital part of the American economy.

Playing power politics is not a replacement for productivity gains. U.S.-flag shipping interests must accept this economic fact if they are to survive in the highly competitive world shipping market.

Thank you very much, Senator.

[The statement follows:]

STATEMENT OF JOHN BUSH ON BEHALF OF THE U.S. CHAMBER OF COMMERCE

I am William Smith, vice president and director of transportation, General Mills, Inc., Minneapolis, Minn. My appearance is on behalf of the U.S. Chamber of Commerce, where I serve as chairman of the Business Transportation Council. Accompanying me is William D. Kelleher, manager of the chamber's community development section.

The Chamber opposes cargo preference legislation such as S. 188, S. 206, S. 1616 and S. 1624. Cargo preference, the requirement to ship U.S. imports and exports in U.S. flag vessels, will not restore the health of our nation's merchant marine. It will devastate our ability to compete in world export markets for commodities such as grain and coal because it results in excessive U.S. shipping costs unduly raising the final price of goods to other nations.

There will be a similar effect on imports and American consumers will pay higher prices for a wide range of products, including items such as gasoline and other petroleum products, as higher transportation costs are passed down the marketing chain.

By reducing our trade capabilities and increasing domestic prices, cargo preference will hinder economic growth and ultimately reduce employment for American workers.

CURRENT SITUATION

Today, U.S. flag vessels are responsible for shipping only two percent of U.S. imports and exports. This is down from 2.6 percent in 1962 and from approximately 30 percent in the years immediately following World War II. What has caused this decline? The answer is cost.

Both the construction and the operating costs of U.S. flag vessels, which are 2.5 to 3 times that of foreign flag vessels, effectively eliminate the American merchant fleet from the highly competitive world market for shipping services.

Currently, construction costs of ships built in U.S. shipyards are triple the generally accepted price in foreign yards. This represents an increase from the early 1970's when U.S. construction costs were approximately double those of other countries.

According to the Federation of American Controlled Shipping, these excessive construction costs require a typical newly constructed American built bulk carrier to earn $32,000 per day more than a foreign built ship to recover just its capital costs.

It should be recognized that, under current market conditions, there is an excess of world shipping capacity. A newly built U.S. flag ship will likely compete with a five year old vessel, in which case the U.S. ship's capital cost would impose a $43,000 daily differential above those of the foreign flag vessel.

Nowhere does the exorbitant cost of U.S. flag shipping become more apparent than in payroll costs. Based on a crew of 26, operating a U.S. crewed ship is 3.2 to 4.25 times as costly as a vessel manned by a European crew. In actual costs, an American crew of 26 will have an annual payroll of $3.4 million. An Italian crew costs $1.1 million annually and a Spanish crew is $0.8 million per year. This results in a payroll differential of $2.6 million to $2.4 million that must be made up in higher shipping charges.

EFFECT ON U.S. ECONOMY

Cargo preference would impose approximately $100 billion in additional shipping costs on the U.S. economy if current cargo preference proposals are enacted into law or approximately $6 billion between now and 1999 when the full weight of the proposed cargo preference is felt.

In addition, there are additional costs from the lost jobs and slower economic growth that will result from the effect of cargo preference on domestic production and reduced international trade.

For example, the National Coal Association has estimated cargo preference would increase the landed price of U.S. coal to Europe by approximately $22 per long ton and to the Far East by $36 per long ton. U.S. coal, which is already at a price disadvantage in world markets, would be at an even greater disadvantage and could participate only in spot markets in times of a severe coal shortage. For every million tons of coal the United States does not export, some 600 jobs are lost in coal and coal-related industries.

Similar results would be felt in world grain markets, where shifts in price of as little as a few cents per bushel can make or break a transaction. The American

Farm Bureau Federation has calculated the approximate effect of a five percent cargo preference as 13 cents per bushel of grain. The effect on American farmers and other components of agribusiness, such as fertilizer manufacturers and farm equipment manufacturers, would be highly detrimental.

Proponents of cargo preference claim it would create jobs in the ship building industry and the merchant marine. But, the Chamber believes that, on balance, there will be a net job loss as the result of this type of legislation.

The Department of Commerce estimates that roughly $24,000 in capital investment is required to create one job under current economic conditions. Cargo preference will result in roughly $1.2 million increased cost to our economy per job produced in a sheltered merchant marine. Clearly, cargo preference will result in a shifting of investment capital into areas of greatly reduced productivity, resulting in substantially lower employment per dollar invested.

REACTION OF OTHER NATIONS

The imposition of cargo preference by the United States would be completely out of step with the conditions in the remainder of the free world. This type of protectionist activity is not engaged in by our trading partners. If we began a restrictive protectionist process, we would be open to massive retaliation by other countries with the end result that the market for U.S. shipping would be even further reduced.

Among free world nations, only France practices a limited form of cargo preference related to imported crude oil and coal. These French requirements enacted some 50 years ago require French ownership and operation only, not construction, of the vessels.

NATIONAL DEFENSE

Among the most emotional arguments made for cargo preference is its purported benefit to our national defense. Those who argue this point claim that the United States needs its own fleet in case of war or other national crisis.

This Argument has two weaknesses. First, there is not a shortage of shipping capacity to serve U.S. national defense needs. U.S.-controlled shipping, ships owned by American citizens but built and manned by foreigners, provides more than adequate shipping capacity. This system of U.S.-controlled shipping provided national security shipping needs in both the Korean Conflict and in Vietnam. There is no reason to suspect this system will not work in the event of some future emergency.

Second, the types of ships produced by cargo preference are not those necessarily needed for national defense. If specific voids exist for national security purposes, those ships should be built on a contract basis by the Navy and paid for under normal appropriations processes. A $100 billion indirect tax through cargo preference should not be imposed on the entire economy to meet an unspecified need.

CHAMBER RESPONSE TO THE FOUR BILLS BEFORE THE SUBCOMMITTEE

All four bills before this subcommittee support the principle of cargo preference to greater or lesser degrees. The chamber opposes all of them. S. 188 will not strengthen our merchant marine by guaranteeing it U.S. mail shipments. S. 206, which gives the Secretary of Transportation the power to impose cargo preference requirements, will only serve to expose our shipping needs to constant political infighting. Finally, the general cargo preference proposals combined in S. 1616 and S. 1624 are contrary to the long-term best intrests of both consumers and businesses.

CONCLUSION

For both national defense and economic security, the United States must have access to a reliable, effective merchant fleet. The current mix of U.S.-flag and U.S.-controlled vessels more than meets those requirements.

Attempts to stimulate U.S.-flag shipping artificially by creating government guaranteed markets will result only in business paying excess shipping costs, which increases consumer prices, and reducing our country's ability to compete in world markets.

U.S. shipping stands at an important crossroads. It can either throw off the old habits that have reduced its share of U.S. imports and export shipping 90 percent since World War II and begin to become efficient, productive, and competitive again. Or, it can hold tight to its old chains and seek further government protections. The net result of this course will be continued inefficiency and economic ruin for a vital part of the American economy. Playing power politics is not a replacement for pro-

ductivity gains. U.S.-flag shipping interests must accept this economic fact if they are to survive in the highly competitive world shipping market.

Senator STEVENS. Mr. Miller.

Mr. MILLER. Thank you, Mr. Chairman.

I am H. George Miller, director of distribution of the Lubrizol Corp., appearing as chairman of the ocean and international task group of the Chemical Manufacturers Association.

In 1982 CMA member companies exported nearly 20 billion dollars' worth of chemicals. Chemical imports amounted to $9.5 billion. Since well over half of this tonnage moves as bulk enactment of the cargo preference legislation would have a very significant impact on the CMA companies.

In the interest of time, I will highlight our written statement and ask that it be accepted into the record.

Senator STEVENS. Yes, sir.

Mr. MILLER. Instead of trying to solve the problems created by much higher construction and operating costs of U.S.-flag vessels, S. 1624 seeks to create another subsidy in the form of guaranteed cargo. The chemical industry strongly opposes this approach, for the following seven reasons:

First, noncompetitive rates. Our exhibit one shows that rates for transporting reserve cargoes of chemicals would be at least 83 percent higher than rates of a typical foreign flag tanker if S. 1624 were enacted. The guideline rates and the tax credit provisions of S. 1624 would not begin to offset the effects of higher rates and reduced service.

The determination by DOT of costs to set guideline rates on chemicals would introduce a complex degree of maritime regulation far in excess of any I have seen in my 35 years as a marine shipper. This is at odds with current efforts to reduce maritime regulation.

Second, U.S. exports and U.S. trade balance will suffer. The higher freight rates on liquid and on dry bulk cargoes would make U.S. exports less competitive worldwide. This would have serious consequences for the chemical industry, where the difference of a few dollars on freight rates is often the difference between sale by a U.S. chemical producer or by a foreign competitor.

Third, manufacturing jobs will decrease. Any maritime jobs created at the port would be more than offset by the jobs lost at the thousands of chemical plants nationwide that manufacture products for export. Indeed, CMA member companies and my own company already report production and employment cutbacks directly attributable to markets lost in South America, where cargo reservation laws have resulted in substantially higher liner freight rates from the United States.

Fourth, the U.S. consumers will bear higher import costs. S. 1624 would cause the price of U.S. bulk imports to increase. These higher costs would be borne by U.S. consumers as well as by the U.S. petrochemical industry, who use large quantities of imported petroleum as a raw material and as a source of energy, and also import significant volumes of dry bulk raw materials.

Fifth, shipping delays. Cargo reservation would lead to delays as bulk shipments wait in storage tanks at the docks for the vessel that has both the suitable tanks needed for highly specialized chemical cargoes and the proper flag.

Sixth, inefficient routings. Our exhibit 2 shows a chemical parcel tanker route, and it demonstrates that these vessels usually do not sail between the ports of the United States and a trading country.

This very typical voyage shows that a typical ship called on one voyage at six European, three Western Hemisphere, and seven Asian countries. S. 1624 may be able to reserve some cargo to the U.S. vessels between the United States and one foreign port, but it cannot reserve cargo to vessels between the many non-U.S. ports involved in efficient routing.

S. 1624 cannot make U.S. parcel tankers viable and efficient in world trade.

Seventh, both S. 1624 and S. 1616 invite cargo reservation worldwide. The subcommittee is no doubt aware that many nations are attempting to reserve liner and bulk cargoes for national flag lines. The Federal Maritime Commission, the Departments of State and Transportation, and the administration are trying to maintain our open seas policy by challenging these cargo reservation laws of other countries. Our governmental authorities cannot logically argue against and resist protectionist cargo legislation of the other countries if the United States enacts this protectionist cargo legislation.

Fortunately now, few nations extend cargo reservation to bulk products. If S. 1624 were enacted, the United States would invite other nations to retaliate with bulk cargo reservation laws. Similarly, we oppose section 4 of S. 1616, since it would reserve to U.S.-flag vessels up to 100 percent of nonsecurity cargo that is financially backed by the U.S. Government. Although currently chemicals are seldom financially backed by our U.S. Government, our foreign customers often obtain their government's financial backing for their purchases of U.S. products.

If section 4 of S. 1616 were enacted, the United States would have difficulty refusing to accept similar foreign cargo reservation of the Government-financed chemical purchases of our importers, and this would be a significant part of our present chemical trade.

Senator STEVENS. Are they not already all on foreign vessels coming in right now? I do not understand that. You have both repeated that. Those foreign imports are coming in on foreign vessels now. They are not using U.S. vessels.

Mr. MILLER. These are the extension of reserved cargoes on the United States that we are talking about here.

Senator STEVENS. What would happen if the foreign governments reserved their guarantees, their cargoes, their exports to the United States of chemical products would come in on foreign vessels? They are coming in now, and I don't understand. You are telling us that there would be a retaliatory factor, and the chamber of commerce said the same thing. We are not using any U.S. vessels to bring in foreign imports right now.

Mr. MILLER. Let us take Venezuela as an example, where the negotiations are under way. The Venezuelans have a law on the books that says any cargo financed by the Venezuelan Government must be handled on Venezuelan lines.

Senator **Stevens**. All right. How does that hurt us when their exports to the United States are coming in on foreign vessels now anyway?

Mr. **Miller**. To have efficient transportation worldwide and to enforce the freedom of the seas that we have stood for for so long, you have to permit not only the national flag lines of two countries, but the cross traders to participate, and what is happening here with the extension of cargo preferences is only U.S. lines and only Venezuelan lines can move cargo between the United States and Venezuela. The cross traders, who are important to efficient transportation, are excluded out, and it effectively removes all economic competition.

Now, we need to cross trade with other third parties, and if the UNCTAD code in the liner end, which would reserve most of the cargo between each country pair exists, you would have national lines running between two countries carrying their trade with no outside competition, and because that trade doesn't balance, it would be extremely inefficient transportation.

Senator **Stevens**. Thank you. Sorry to interrupt you.

Mr. **Miller**. Well, I appreciate that very much.

Senator **Stevens**. It does clarify your point. I appreciate that.

Mr. **Miller**. Gentlemen, for these seven reasons, we urge you to consider the effects the bills would have, the decreased exports, the reduction in manufacturing jobs, the increased import prices for U.S. consumers, and the propagation of a philosophy that rejects competition in ocean transportation, and instead calls for protectionism and a substantial Government regulation.

Thank you very much. I will be happy at the appropriate time to respond to any questions.

[The statement follows:]

STATEMENT OF H. GEORGE MILLER, OF THE CHEMICAL MANUFACTURERS ASSOCIATION

Thank you, Mr. Chairman. I am Director of Distribution for the Lubrizol Corporation and Chairman of the Oceans and International Task Group of CMA, the Chemical Manufacturers Association. CMA is a trade association whose member companies represent over 90 percent of the productive capacity of basic industrial chemicals. In 1982, CMA member companies exported nearly 20 billion dollars in chemicals and allied products, and imported nearly 9.5 billion dollars in raw materials. Since over half of the export tonnage is bulk and virtually all of the import tonnage is bulk, the chemical industry would be significantly impacted, both in rates and service, by enactment of S. 1624.

We have identified seven problems with S. 1624. Before discussing these, let me briefly explain the special characteristics of transporting liquid and gaseous chemicals in bulk, as this bears on some of the problems.

Liquid chemicals, and to a lesser extent gaseous chemicals, are transported in vessels known as chemical parcel tankers. The vessels have 20 to 40 permanent tanks, each designed to hold 300 to 2,000 metric tons of a particular chemical. The tanks are often equipped in various ways with sophisticated lining, heating, venting and piping systems. The crew must have special knowledge and take special care in loading and handling of chemicals in order to insure safe transport and to satisfy the numerous Coast Guard and International Maritime Organization regulations. It is already difficult for a shipper to find a parcel tanker that has a qualified crew and is properly equipped for carrying his particular chemicals. S. 1624 would drastically reduce the pool of qualified parcel tankers by limiting to U.S.-flag parcel tankers 20 percent of the U.S. chemical shipments.

Of the 337 chemical parcel tankers worldwide, few are registered in the U.S., primarily because a U.S. constructed and U.S. crewed parcel tanker is too expensive to compete in overseas trade. As Exhibit I shows, U.S. shipyard construction costs for a parcel tanker are 64 percent higher than for a foreign built parcel tanker. U.S. crew costs are 163 percent higher than foreign crew costs. In total, annual operating costs for a U.S. registered parcel tanker are 83 percent more expensive than for a typical foreign-flag parcel tanker.

Instead of trying to solve these underlying construction and labor cost problems that make the U.S.-flag fleet noncompetitive, S. 1624 seeks to create another subsidy in the form of guaranteed cargo. The chemical industry strongly opposes this approach, for the following seven reasons:

1. Higher rates.—Based on Exhibit I, we can expect U.S.-flag parcel tanker rates to be at least 83 percent higher than rates of foreign-flag parcel tankers. This difference would be necessary just to offset the 83 percent higher operating costs of U.S. flag parcel tankers. This is probably a conservative estimate since other commodities under cargo preference laws often have experienced freight rates on specific movements that are at least 100 percent higher than those of competitive carriers.

These higher rates would not be sufficiently restrained by the "guideline rates" or sufficiently offset by the "tax credit" provisions of Section 105 and Title II of S. 1624. DOT would have to set the "guideline rates" high enough to cover the additional U.S. operating costs plus a profit. Otherwise, investors would not invest in U.S.-flag parcel tankers, which would frustrate the purpose of S. 1624.

Similarly, the "tax credit" provision of Title II is only a 10 percent credit, or a 20 percent offset of rates for the 50 percent taxpayer. A 20 percent savings is too little to offset the higher rates, and likely would be spent just to pay for the accountants and lawyers who would recover the credits and, if necessary, challenge the DOT determinations under Title II.

This Subcommittee currently is attempting to reduce maritime regulation, as is evident by its support of the Shipping Act reform bill—S. 47. The DOT determinations required by S. 1624 of "guideline rates", "qualified increased shipping costs", and "rate differentials" would introduce a degree of maritime rate regulation far in excess of any that I have experienced in my 35 years as a marine shipper. Moreover, I believe it would be virtually impossible to make accurate determinations of these items because of the many bulk chemical rates, the wide differences among trades, and the constantly fluctuating rate levels.

2. U.S. exports and the U.S. trade balance will suffer.—The higher freight rates would make U.S. exports less competitive worldwide. This would have serious consequences for the chemical industry where a difference of a few dollars in freight rates often is the difference between a sale by a U.S. chemical producer or by his foreign competitor. In 1982, the chemical industry's contribution to a positive balance of trade was nearly 10.5 billion dollars. As U.S. exports become less competitive under S. 1624, that favorable contribution will surely decrease.

3. Manufacturing jobs will decrease.—While U.S. shipbuilders and seamen may theoretically benefit from this bill, any jobs created at the port would be more than offset by the jobs lost at the thousands of plants nationwide that manufacture exports. Indeed, CMA member companies already report production and employment cut-backs directly attributable to lost markets in South America where cargo reservation laws have substantially increased liner freight rates from the U.S.

4. U.S. consumers will bear higher import costs.—S. 1624 also would cause the price of U.S. bulk imports to increase. These higher costs would be borne by U.S. consumers, as well as by U.S. petrochemical manufacturers who use large quantities of imported petroleum as raw material and as an energy source.

5. Shipping delays.—Cargo reservation would lead to delays as shipments wait in storage tanks at the docks for the vessel with the proper flag to arrive. These delays would be exacerbated in the bulk chemical trade because parcel tankers do not make regular sailings between port pairs, and because many chemicals can only be transported on specially equipped parcel tankers.

6. Inefficient routings.—As just noted, chemical parcel tankers do not sail between port pairs of two countries. As the "Westbound Route A" example of Exhibit II shows, a typical efficient movement included calls at six European countries, three Western Hemisphere countries, and seven Asian countries. A U.S. flag parcel tanker also generally would find that its most efficient routing is worldwide, not port pair routes. S. 1624 can reserve some cargo to the U.S. tanker between the U.S. and foreign ports, but it cannot reserve cargo to the tanker between non-U.S. ports. Thus, S. 1624 will not make U.S.-flag parcel tankers viable and efficient operators in world trades.

7. S. 1624 and S. 1616 invite cargo reservation worldwide.—This Subcommittee is no doubt aware that many nations are attempting to carve-up liner and bulk trades, such as on a 40-40-20 basis, or on a 50-50 basis. The Federal Maritime Commission and the Departments of State and Transportation are trying to maintain an open seas policy by challenging the cargo reservation laws of other countries, and by refusing to enter into new bilateral agreements that reserve large percentages of the trade. These governmental authorities cannot logically argue against and resist the protectionist cargo legislation of other countries if the United States enacts broad protectionist cargo legislation at home.

Fortunately, few nations currently extend cargo reservation bulk products. But if S. 1624 were enacted, the United States would invite other nations to enact bulk cargo reservation laws. Similarly, we oppose Section 4 of S. 1616, since it would reserve U.S.-flag vessels up to 100 percent of the non-security cargo that is financially backed by the U.S. Government. Although chemicals seldom are financially backed by the United States, our foreign customers often obtain their government's financial backing for their purchases of our products. If Section 4 of S. 1616 were enacted, the United States would have to accept similar foreign cargo reservation of chemical purchases. This would increase the delivered price of our chemical exports, and make us less competitive worldwide.

In sum, the basic principles and projections of S. 1624 and of Section 4 of S. 1616 must be fundamentally re-examined. We urge you to consider the effects the bills would have—the decreased exports, the reduction in manufacturing jobs, the increased import prices for U.S. consumers, and the propogation of a philosophy that rejects competition in ocean transportation and instead calls for protectionism and substantial government regulation.

Thank you. We will be happy to respond to any questions.

[EXHIBIT I]

Comparison of current cost of constructing and operating a 39,000 dwt American-flag chemical parcel tanker with the cost of constructing and operating a typical foreign-flag parcel tanker.

DIFFERENCE BETWEEN AMERICAN AND FOREIGN COSTS

	American flag	Foreign flag	Percent
Estimated construction cost 1981 built or delivered	$70,300,000	$42,800,000	64
Annual operating costs:			
Capital costs at 16 percent [1]	11,248,000	6,848,000	64
Crew Payroll 25 men [2]	2,900,000	1,100,000	163
Crew Food	75,000	60,000	25
Stores, Supplies, Admin	310,000	200,000	55
Maintenance/Repairs	660,000	275,000	140
Insurance [3]	1,315,000	535,000	145
Total operating costs [4]	16,508,000	9,018,000	83

[1] Estimated cost of borrowing investment funds or the internal rate of return needed if self-financed.

[2] This assumes U.S. vessels can and will be operated with the same size crew as the foreign flag. A random check of four U.S.-flag chemical parcel tankers operating in April 1983, indicates the following actual manning levels: 30, 33, 33, 26, for an average of 31.

[3] Insurance premium for U.S.-flag vessel is 1.87 percent of construction cost, while typical foreign flag vessel premium is 1.25 percent of construction cost.

[4] We have omitted two major cost categories which will vary directly with the assumed trades: (1) fuel and (2) port and canal tolls. If the same fuel efficient slow speed diesel engines are used in the U.S.-flag vessel as are now standard for foreign built vessels, there should be no predictable difference in these categories. Obviously inclusion of these two constants in both sides of the comparison will not change the annual premium, but it will reduce the percentage of the premium to the total costs.

Prepared by Jones Bardelmeier and Company, Ltd., Bahamas, April 1983.

[EXHIBIT II]

Details on cargoes and routes for a typical chemical parcel tanker voyage.

Westbound route A

Europe westbound via the United States to the Far East

Time of westbound voyage (days)	70
Total cargo carried (million tons)	40,000
Parcels carried	36
Ports of Call (berths 29)	15
Origin/Destination countries of cargoes handled: (England, West Germany, Belgium, Spain, France, Netherlands, USA, Canada, Panama [Canal Zone], Japan, Korea, Taiwan, Hong Kong, Philippines, Singapore and Malaysia)	16

Westbound route B (vessels regularly operate on both routes)

Europe westbound to Australia via the United States	
Time westbound (days)	75
Total cargo carried (million tons)	28,000
Parcels carried	52
Ports of Call (berths 24)	14
Origin/Destination countries of cargoes handled: (England, West Germany, Belgium, Spain, France, Netherlands, USA, Columbia, Panama [Canal Zone], New Zealand, Australia)	11
Eastbound route A (typical return voyage for westbound voyage A or B)	
Time eastbound (days)	70
Total cargo carried (million tons)	43,000
Ports of Call (berths 24)	12
Parcels carried	29
Origin/Destination countries of cargoes handled: (Indonesia, Philippines, Japan, Canada, USA [West Coast and Gulf], France, Rotterdam [parcels trans-shipped from Rotterdam to several European countries on through bill of lading)	7

Return Route B

Occasionally vessels on one of the above westbound routes will continue westbound to India, Saudi Arabia, and (via Suez Canal) to Greece, Italy, Spain and on to Rotterdam. Cargo details of an actual voyage are not available.

A typical round voyage combining routes Westbound A and Eastbound A would involve the following:

Time of voyage (days)	140
Total cargo carried (tons)	83,000
Parcels carried	65
Ports of call (berths 53)	27
Origin/Destination countries	17

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS THERETO

Question. It has been said that, "unrestrained trading flexibility is basic to the bulk sector because the market is characterized by rapid changes in availability of cargo and the ships needed to carry it, thus market rate instability is created and a fierce competitive environment is fostered."

If our operators are unable to respond to these conditions, and we need a dry bulk fleet for national defense and economic reasons, would guarantee of cargo be a way to help achieve it?

Answer. Bulk shipping requires vessels that are efficient and able to compete in world trades. A shipper's space, vessel type, sailing schedules, and demand and supply conditions in various parts of the world often change in bulk markets. When demand for ocean transportation decreases in one market, (as it generally has in all U.S. export trades in the past few years largely due to the high value of the dollar), the bulk vessel must be efficient enough to compete in other markets.

This ability to compete in world markets is essential even when demand conditions are not fluctuating wildly. For example, liquid chemical parcel tankers have found it efficient to operate in round-the-world or whole-ocean trades, calling at numerous countries in each voyage. As the "Westbound Route A" example of Exhibit 2 or our testimony shows, a typical efficient voyage included calls at six European, three Western Hemisphere, and seven Asian countries.

These facts demonstrate that U.S. bulk operators must be viable in world trade, not just U.S. trade. S. 1624 only guarantees U.S. bulk operators up to 20 percent of the U.S. market; it does not and cannot guarantee them cargo in trades between foreign ports. If U.S.-flag bulk operators are to be viable and adaptable to changing market conditions, they must solve their underlying problems of high construction and crew costs. Cargo reservation, as contemplated in S. 1624, does not adequately address or encourage a solution to these underlying problems.

Question. Some commodity interests have urged that cargo preference should only apply to U.S. imports. That way our exports would remain competitive in world markets.

If there were no cargo preference for exports, how would U.S. bunkers be assured of cargo on the outbound portion of a voyage?

Answer. U.S. bulkers would not be assured of cargo on the outbound movement, and could not successfully compete for the outbound business unless their underlying construction and crew costs are sufficiently reduced. Further, CMA does not support cargo reservation only on bulk imports. As shown in API and CMA testimony, cargo preference on crude oil imports would increase the chemical industry's energy and its hydrocarbon raw material costs. It also would increase the cost of all imported bulk materials used by the U.S. chemical industry.

Additionally, cargo reservation on U.S. bulk imports would invite other nations to impose cargo reservation laws on their bulk imports, that is, on U.S. exports. Thus, a bill that initially attempts to except the U.S. bulk exporter, likely would lead to the exporter being subjected to cargo reservation by other countries.

Question. You have testified that of the 337 chemical parcel tankers worldwide, few are U.S.-flag. Thus, it would be difficult for a shipper to find a U.S. parcel tanker to carry liquid chemicals.

Under those circumstances, wouldn't the shipper be excused from the cargo reservation provision of S. 1624?

Answer. CMA cannot tell if the shipper would be excused. First, DOT has substantial discretion under Section 104(d) of S. 1624. The "Secretary may relieve * * * to the extent he determines necessary." The Section specifically contemplates alternative forms of relief that are less than an absolute waiver from the use of a U.S.-flag vessel.

Additionally, what is meant by DOT may grant a waiver when a vessel is "not available"? If the vessel can transport the product 20 days later than requested by the foreign customer, is the vessel unavailble? If it can only transport the product to a port 200 miles away from the port closest to a foreign customer, it the vessel unavailable? If the U.S. vessel fails to respond within a reasonable time to the shipper's request for service, is it unavailable? If the equipment on a U.S.-flag parcel tanker meets minimum DOT safety standards for carrying a certain chemical product, but a foreign-flag vessel has newer and safer equipment that also satisfies DOT requirements, is the U.S. tanker unavailable?

Even if waivers were granted, the waiver system imposes a cumbersome bureaucratic hurdle. U.S. exporters often must be able to quote freight rates to their foreign customers in no more than 48 hours. Otherwise, our foreign competitors, who can quote rates promptly, will secure the business. The waiver system would delay the U.S. exporter's ability to quote rates, and consequently, would place U.S. exporters at a competitive disadvantage.

Finally, a waiver system is inconsistent with the nature of liquid chemical shipping. Often shipowners must install special venting, heating, pumping and lining systems into the parcel tanks in order to transport many chemical products safety and to maintain product quality. Before the shipowner makes this investment, it often will seek a one to three year commitment from the shipper to ship a minimum quantity on a regular basis. The carrier, in turn, guarantees that it will provide the customised space, for a minimum number of sailings between the shipper's loading berth and the customers' receiving berths. It will be extremely difficult to obtain these mutual long-term commitments under S. 1624 since the shipper's ability to carry-out the commitment may be dependent on obtaining a waiver, and a waiver cannot be granted for more than one year.

Question. It has been said that cargo reservation places the burden of suibsidizing the U.S. merchant fleet on one class, i.e., shippers.

If it is in the national interest to have a strong merchant marine, would you favor subsidizing it through adequate levels of CDS and ODS? In that event, the cost of subsidy is borne by everone.

Answer. Cargo reservation unfairly and unjustifably burdens U.S. exporters and importers, as well as hurting the U.S. balance of trade and employment in manufacturing plants. CMA has not taken a full position on the alternative memtioned, the use of CDS and ODS to support the merchant marine needed for defense purposes. We note, however, that there is significant evidence that current ODS and CDS has not resulted in creation of an economically viable merchant marine.

If the only alternatives are cargo reservation or CDS and ODS, the subsidy route clearly would be fairer. Since all U.S. citizens benefit from U.S.-flag vessels that are capable of meeting U.S. needs in time of foreign conflict, general revenues should be used to pay for the costs of maintaining those vessels. A clear distinction should be made, however, between vessels that are necessary for defense purposes, and vessels that serve only commercial purposes. While subsidies may be appropriate for defense vessels, subsidies (whether ODS, CDS or cargo reservation) for commercial vessels are not similarly justified.

Senator STEVENS. Thank you very much. Mr. Ward.

Mr. WARD. I am appearing on behalf of the Gypsum Association, which is a trade association of the Gypsum Building Materials Manufacturers, who together produce more than 94 percent of the gypsum building materials consumed in this country.

Gypsum rock is a natural mineral which has little value until after it has been processed. The processed mineral is fabricated in fire resistant gypsum wall boards and plasters for use in buildings of all types. These products are used to finish the walls and ceilings of virtually every home, apartment office building, retail store, school, hotel, and hospital in the United States, providing these structures with a built-in capability to resist the passage of flame, heat, and toxic fumes.

Substitute materials cannot match gypsum products either in their performance or in their low cost. No commercial deposits of gypsum have been found along the east, west, or gulf coasts of the United States, where many gypsum plants are located, in order to serve the nearby major markets.

Therefore, approximately 40 percent of the total gypsum rock consumed in this country is imported from Canada and Mexico, and is carried in specially designed dry bulk cargo ships under foreign flags.

Incidentally, there are at present no suitable U.S.-flag vessesls offered for charter to carry these cargoes. This rock is processed into building materials at more than 30 manufacturing facilities located along the east and west coasts, the Great Lakes, and the gulf.

In our view, enactment of S. 1624 would be a profoundly serious error. We conclude this for several reasons. First, the provisions of this act are anticompetitive. In addition, they can be highly inflationary, dislocating, and extremely wasteful of present capital assets.

Most disturbing of all, enactment of this legislation can be expected to weaken our national defense by reducing total economic activity through the same inflationary and anticompetitive provisions, thus reducing our overall national tax base and thus our ability to purchase the weapons and the other military implements essential to national defense.

If this bill were to be enacted, the gypsum products industry would be faced with the following wasteful and inflationary problems. First, to the extent that our member companies operating coastal manufacturing facilities have affiliated shipping operations, they would be forced to sell one of their existing vessels and replace it with a U.S.-built vessel of similar design.

A similar ship, recently produced in a U.S. yard, cost $73 million. My text reads $55. I was able to amend that last night with some new information. A comparable foreign-built ship was recently quoted to cost $18 million. In each case, we are talking about a custom-built, one of a kind vessel.

It would probably be impossible to persuade a leasing owner to build such costly ships for long-term charter. Few, if any, owners would be interested in the risk of owning these relatively small, specialized vessels because the general chartering and resale potential is limited. Even if they were to build such ships, our members would have to pay enormously higher charter rates locked in for a period long enough to return the owner's investment.

If economics would not support the building of new specialized vessels, and our members could not charter U.S.-flag vessels capable of discharging their cargos at present receiving facilities, then these facilities would have to be rebuilt to receive standard bulk carriers. This would, of course, eliminate all of the present advantages of rapid automatic discharging, thereby adding substantially to the cost of receiving the cargoes.

At many ports member companies would be forced to install cranes to unload the ships, again, a substantial additional capital expense. Moreover, several plants are not located on deep enough water to economically handle many standard bulk carriers. Extensive dredging would be required. The minimum cost to alter the receiving facilities would total at least $95 million, a prohibitive price to pay for a relatively inexpensive bulk cargo.

In today's depressed shipping market, the forced sale of ships whose abandonment would be necessitated by this bill could reduce their values disastrously. Potential buyers, if any were interested in purchasing these specialized vessels, would be unlikely to pay any more than scrap value. It would be impossible for Gypsum Association members to meet the statutory time requirement contained in section 104(a) of the bill.

At present, U.S. yards can complete construction of this type of specialized ship in approximately 14 months after final drawings. This compares to the 8 months presently required in foreign yards. Design and drafting work would take many additional months. Delayed delivery schedules would be the probable result, as U.S. shipbuilding facilities became overwhelmed with orders, and costs could easily double. In addition, very few U.S. shipyards have any experience in the construction of self-unloading dry bulk vessels.

We cannot avoid the conclusion that if S. 1624 were enacted, the resulting losses and enormous additional costs to the gypsum industry would be staggering, perhaps as high as $400 million. That would represent a 36-percent increase in the present total capital investment of $1.1 billion in the entire gypsum industry in the United States. Present investment in ships represents only 10 percent of that total.

The resulting needlessly inflated cost to the American home buyers, office owners, and renters, small business retailers, and every consumer of shelter would be insupportable.

The 10 percent tax credit created by title 2 of the act would not provide necessary incentive, given the high investment required. We have no confidence in the workability of federally administered guideline rates, which would attempt to adjust U.S. flag ocean shipping costs to world competition. A similar attempt failed under the best efforts of the Maritime Administration between 1955 and 1971. There is no good reason to expect that it would not fail again.

Responding to the contention of proponents that it would strengthen our national defenses, we know of no established military application for the relatively small specialized vessels now used to carry gypsum rock. The Gypsum Association and its member companies have carefully analyzed this bill and found no possible combination of benefits to our Nation which would offset the enormous costs and waste this legislation would visit upon the American people.

We therefore ask this committee to carefully consider the evidence, and then to reject this legislation. We greatly appreciate this opportunity to present this information to you. Thank you.

[The following information was subsequently received for the record:]

GYPSUM ASSOCIATION,
Silver Spring, Md., November 16, 1983.

Hon. DANIEL K. INOUYE,
Russell Senate Office Building,
Washington, D.C.

DEAR SENATOR INOUYE: We are pleased to respond to your questions concerning the cargo preference legislation currently before the Merchant Marine Subcommittee of the Senate. The Gypsum Association members are deeply concerned with Senate Bill 1624 as this legislation would have a profound adverse affect on our entire industry. Our concerns were presented in formal testimony before the Senate Merchant Marine Subcommittee on September 29, 1983.

Question. You state that there are no suitable U.S. flag vessels currently offered for charter to carry gypsum rock, and it is unlikely that economics would support the building of new specialized vessels.

Doesn't Section 104(D) of S. 1624 authorize the Secretary of DOT, upon application of gypsum importers, to relieve them from the cargo reservation requirement if no U.S. flag vessels are available?

Answer. Section 104(D) states in part: ". . ., the Secretary may relieve any importer, exporter, shipper or receiver, from the requirements of this title, . . . in no event shall relief be granted for a period beyond the calendar year in which application is made." Under the one year limitation, it would be impossible to plan capital investments.

Our member companies plan for their ships to be in service for about 25 years. With the present wording, proper business planning would be greatly hampered, if not made impossible.

Question. A. According to most experts, what is the forecast for growth or decline for U.S. exports of major bulk commodities (grain, iron ore and coal) over the next ten years; and for minor commodities (finished and semi-finished ferrous metal products; motor vehicles; forest products; various organic and inorganic refined chemicals and fertilizers, etc.)?

B. If there is a growth trend, will this trend in and of itself motivate the addition of more dry bulkers to the U.S. fleet; or will it mean that more and more of our export cargoes will be carried on foreign bottoms?

Answer. Our members are importers of gypsum rock, mainly from Canada and Mexico. Our industry's growth is tied directly to the housing/building industires. As you know, the housing market swings in major cycles. Interest rate fluctuations cause continuing reassessments for future needs of raw materials such as gypsum rock. Our current inventory of ships have been able to keep our coastal plants supplied with gypsum rock even when, in 1978, housing starts were far in excess of previous years' demands.

Our present gypsum board yearly capacity of over 20 billion sq. ft. can supply all anticipated housing/building needs in the foreseeable future. We, therefore, see no growth trend which would cause our sq. ft. to be increased.

Question. Some opponents of cargo reservation maintain that if National Defense is dependent upon U.S. flag vessels, financing for construction and operation of these vessles should be paid out of the defense outlays and shared by all Americans. Do you agree with this approach?

Answer. We agree that if National Defense is dependent on U.S. flag vessels, financing should come from the defense budget. Because the ships needed for the perceived defense support effort have not been identified as to size, type, cargo needs, etc., we conclude that such support ships would have specialized military requirements and, hence, financing should come from defense outlays. As in the case of commercial airliners, just the modifications required could be subsidized by the military.

Question. This question concerned the transfer of the responsibility of jurisdiction over cargo preference laws from the Department of Agriculture to the Department of Transportation.

Answer. The transfer of responsibilities offered by Senate Bill S. 206 would not apply to our industry, but your examples certainly present strong evidence in support of this bill. We would not oppose this measure.

Question. Some commodity interests have urged that cargo preference should only apply to U.S. imports. That way, our exports would remain competitive in world markets. If there were no cargo preference for exports, how would U.S. bulkers be assured of cargo on the outbound portion of a voyage?

Answer. Your question concerning cargo preference applying only to U.S. imports is somewhat difficult to answer. Our specialized vessels only carry gypsum rock to the United States and go back empty. The return voyage is utilized for necessary repairs and refurbishing the ships so they are ready to take on the next load without in-port delays. Although some exploratory work has been done which could result in return cargoes, the evidence to date indicates that this is not practical, nor economically feasible within our industry.

Question. It has been said that cargo reservation places the burden of subsidizing the U.S. merchant fleet on one class, i.e., shippers. If it is in the national interest to have a strong Merchant Marine, would you favor subsidizing it through adequate levels of CDS and ODS? In that event, the cost of subsidy is borne by everyone.

Answer. We favor a strong Merchant Marine Fleet if it is economically feasible without subsidy. If the military needs vessels, they should request funds for those needs. Again, a description of the vessels needed for military support might reveal that legislation such as S. 1624 is not needed.

Thank you again for the opportunity to respond to these questions, and should you need any additional information concerning our industry's activities, please do not hesitate to contact us.

Sincerely,

D. E. BRACKETT,
Eastern Manager.

Senator STEVENS. Thank you very much. Mr. Banks?

Mr. BANKS. Thank you, Mr. Chairman.

I am William H. Banks. I am president of the Chevron Shipping Co., and with me today is James A. Cole, Jr., vice president, marine, for Texaco. We are appearing on behalf of the American Petroleum Institute, or API.

API supports S. 202 and S. 1616, with some suggested amendments, but we are firmly opposed to S. 1624. I will summarize our position on each bill, and we have already filed a more complete statement for the record.

Senator STEVENS. It will all be printed in the record.

Mr. BANKS. API supports S. 206 because we believe it would solve many current bureaucratic and jurisdictional problems by giving a single person, the Secretary of Transportation, the authority to designate which Government programs are subject to cargo preference. However, DOT should receive in their budget the funds necessary to pay the freight differentials which exist between U.S.-flag and foreign flag vessels. This would relieve DOT from having to direct other departments to spend their own funds, and would force Government cargo preference programs to undergo annual budget review.

API supports S. 1616 because we believe that the shipper of a cargo, in this case the Government, has a right to select the carrier. As taxpayers, though, we disagree with those aspects of the bill which needlessly increase Government expenditures. For example, by increasing the U.S.-flag carriage requirements from 50 percent to 100 percent for foreign crude cargoes to fill the strategic petroleum reserve, we would be spending about $190 million to no good purpose.

Also, if Government mandates the U.S.-flag carriage of non-owned cargoes under section 4 of the bill, they should pay the freight differential to the cargo owners from budgeted funds subject to budget review process. To control these costs, mandatory competitive bidding should be employed rather than relying on administrative determinations as to whether a particular price is fair and reasonable.

API strongly opposes S. 1624. Our consistent opposition to cargo preference legislation is attributable to the serious economic, diplomatic, administrative, and national security problems inherent in such laws. S. 1624 is certainly no exception.

The United States versus foreign cost differential for tankers is almost three to one. When the bill became fully effective in the year 2,000, even if the 20-percent reduction in operating costs actually materializes, which we seriously doubt, it would cost the U.S. consumer an extra $27 billion per year for petroleum products alone, and a total of $66 billion a year if all other energy costs escalated to the new higher marginal cost levels for imported petroleum.

S. 1624 would reduce GNP, thereby eliminating more jobs than it would create. It would squander national resources. Four hundred tankers are currently laid up around the world, with the surplus is expected to last at least through this decade. We certainly do not need to add to this surplus.

Enactment of S. 1624 would reverse longstanding U.S. policy supporting free international trade, and violate at least 15 existing international treaties. Moreover, it would prompt similar action by oil exporting nations, thereby increasing the cost of foreign flag tonnage by as much, if not more, than the direct cost of U.S. cargo preference to the consumer.

The law would be impossible to administer equitably. It would create a new regulatory bureaucracy, imposing higher prices on taxpayers with no discernible benefits. The bill would cover all types of bulk cargo in any geographical trade regardless of vessel types, commodity, or ports. Thus, the requirement to calculate guideline rates would prove administratively unworkable, just as it did in 1971 when MarAd had to abandon its efforts to establish such rates for Government impelled cargoes.

Sponsors of S. 1624 argue that the bill is necessary to provide U.S.-flag merchant vessels needed for national security. But it really would not accomplish that. During the Falklands crisis, for example, the British chartered 24 tankers averaging 26,000 deadweight tons to support their combat forces. None were crude carriers, and none larger than 58,000 deadweight tons.

Now, S. 1624 would compell the construction of over 80 tankers at a capital cost of almost $29 billion. Virtually all of these would be large crude carriers, as owners would undoubtedly strive to minimize the unit costs of U.S. shipping by achieving economies of scale. Most of these larger vessels would be useless in combat support roles.

Clearly, the Government must define vessel requirements needed to meet national security. The Nation cannot afford to spend billions of dollars building and operating the wrong ships. In assessing vessel requirements, full recognition should also be given to the historically proven availability and utility of the U.S. effective control fleet.

A bill is now pending before the House, H.R. 3289, which would create a commission to undertake such a study. We have expressed our qualified support of this legislation. However, care must be exercised in selecting commission members. They should be seen to be clearly neutral and non-partisan, and have no personal or financial stake in the outcome in order to assure full credibility and acceptance of the study.

In summary, API is strongly opposed to cargo preference legislation. It would raise energy costs, increase unemployment, increase our foreign trade deficit, reduce U.S. exports, violate longstanding free trade principles and treaties, misallocate national resources, prove administratively unworkable, and be useless for national security.

Mr. Chairman, the proposed amendment to S.1624 which allows foreign-built vessels documented under the U.S. flag to satisfy one-half the U.S.-flag carriage requirements does not lessen our opposition. While it would reduce somewhat the adverse economic impact, the cost of this legislation would still be immense. Furthermore, it would not mitigate the other problems that are inherent in this bill.

Thus, your amendment would not alter our basic opposition to this cargo preference legislation.

Thank you, Mr. Chairman. I would be happy to answer questions.

[The statement follows:]

STATEMENT OF THE AMERICAN PETROLEUM INSTITUTE

Mr. Chairman, my name is William H. Banks. I am appearing here today on behalf of the American Petroleum Institute or API. I am President of Chevron Shipping Company and Chairman of API's Central Committee on Transportation by Water. With me today is James A. Cole, Jr., Vice President/Marine of Texaco Inc.

API member companies own and term charter more than 160 U.S.-flag tankers with an aggregate tonnage of more than 11 million deadweight tons. This represents aproximately 70 percent of the privately owned U.S.-flag tanker fleet. In addition, as of January 1, 1983 our members owned and chartered in excess of 390 foreign flag tankers with an aggregate tonnage of 53 million deadweight tons. Our member companies account for the vast majority of petroleum imorted in the United States. We have a substantial direct interest in most of the legislation under consideration here today and a peripheral interest in the remainder. We are pleased to have this opportunity to offer our comments on it.

The legislation under consideration today covers a broad range of issues, from administrative changes in the government impelled cargo program to an extremely expensive proposal to impose commercial cargo preference on U.S. bulk imports and exports. I would like to briefly touch on the two bills addressing government impelled cargo and then move on to the more onerous issue of commercial cargo preference.

S. 206

S. 206 would best, with the Secretary of Transportation, the authority to designate which government programs are subject to existing cargo preference requirements. Speaking as a manager myself, I support an approach where authority is vested in a single individual. This approach, if done correctly, would avoid the problems that currently plague this promotional program. However, I must qualify my support because the Secretary is receiving only half of the tools needed to accomplish the task you have assigned. The Secretary also needs the resources to accomplish the task. In this case, the resources that are missing are the funds necessary to pay the freight differential that exists between U.S.-flag and foreign flag vessels. Without the funds, the Secretary of Transportation is in the unenviable position of allocating monies from other departmental budgets. Mr. Chairman, this situation would only worsen or perpetuate current problems. Speaking as a taxpayer, I would urge you to allocate the funds necessary to accomplish the task, make them a line item in DOT's budget and let the supporters of this program take their chances in the budget process.

S. 1616

Mr. Chairman, basic to our position on S. 1616 is the belief that the shipper of a cargo has the right to control its movement including the method of shipment, and the selection of carrier. For cargos which the government owns, or which it ships, we believe that it has the same right to specify shipping arrangements. However, because of its unique relationship to its citizens, government cannot be arbitary in its selection of a carrier nor should it unwisely spend taxpayers' money. These are fundamental considerations, and we fully appreciate both the need to reconcile them and the difficulty in doing so. Thus, in offering comments on S. 1616 we have attempted to be constructive as the legislation is, in many respects, sound.

This bill proposes to increase from 50 to 100 percent the U.S.-flag carriage requirement for foreign crude cargoes bound for the Strategic Petroleum Reserve. As owners of the cargo, the government has the right to move it in any way it may choose. However, as taxpayers, we see little to commend this proposal. Based upon current SPR fill sources and forecasted SPR fill rates, this proposed increase in petroleum carriage requirements would do little to ease the existing U.S.-flag tanker surplus since it would employ only about one incremental U.S.-flag tanker of perhaps 150 MDWT. It would not stimulate the construction of new tanker tonnage. This minor increase in tonnage requirements would cost the U.S. taxpayer approximately $190 million in then current dollars by the time the SPR reaches its legislated fill limit of 750 million barrels in 1990 (see Attachment 1). This proposal could also reduce the flexibility of the Department of Energy in obtaining tonnage or crude types and thus impede the filling of the SPR.

The expanded definition of government-impelled cargo contained in Section 4 of the bill would give the U.S. Government control over cargoes that have been traditionally treated as commercial cargos. In some cases, trade promotional activities, such as favorable credit terms, could be negated if U.S.-flag vessels were required. API believes that, as a general principle, the party assuming the risk of loss of a cargo should control the movement of that cargo. The U.S. Government should not require cargo owners involved in international trade to use higher cost U.S.-flag vessels without compensation for the additional cost which will be incurred by use of that tonnage. This principle could be embodied in the legislation by changing Section 4(A)(1) to read: "to pay at least 50 per centum of the cost of procuring, contracting for, or otherwise obtaining the cargo; and" and by changing Section 4(a)(2) to read: "The United States Government pays the additional freight charges associated with the requirement to use U.S.-flag vessels."

These changes would shift the financial burden associated with a cargo preference requirement to the entity imposing the requirement and would bring it on budget as a direct and identifiable subsidy time where such costs and benefits as might be involved could be evaluated.

API applauds the attempt to limit the cost of U.S.-flag transportation relative to foreign flag vessels by determining an approporiate premium to be applied to current worldscale rates. It should be recognized that U.S. tonnage is clearly not available at rates competitive with those for similar foreign flag tonnage. Acceptance of this fact and selection of U.S. tonnage on the basis of competitive bidding between at least two—and referably more than two—U.S.-flag operators along with an assessment of the overall acceptability of the tonnage being offered would appear to be a simple, straightforward approach. Section 7(b)(2)(C) revives the fair and reasonable rate concept that the Maritime Administration abandoned in 1971. We suggest that the best determinant of "fair and reasonable" is the marketplace. The requirement for competitive bids would eliminate the creation of an impossible bureaucratic process.

S. 1624

Mr. Chairman, API supports the maintenance of an adequate U.S. merchant marine to meet national security objectives. We are strongly opposed, however, to any cargo preference legislation, such as S. 1624, which would mandate that a percentage of all U.S. petroleum imports and exports be transported in ships built in U.S. shipyards and operated under the U.S. flag. We believe this bill would seriously erode national objectives for four reasons:

First, by unnecessarily increasing the cost of energy, it would have a significant effect on the economy, just when recovery appears to be underway. Perhaps even more important, it probably would destroy more jobs than it would create, adding to our high unemployment level.

Second, it would undermine established U.S. policy supporting free international trade. Cargo preference would trigger a proliferation of maritime laws by other countries, and would generally lead to a disruption of the free flow of international cargoes.

Third, the law would be difficult, if not impossible, to administer. At the least, it would create a whole new regulatory bureaucracy, imposing ever higher costs on the taxpayer with no benefit.

Fourth, this legislation would require the construction of approximately 81 tankers, very few of which would be of use in a combat support role. We, doubt that this bill will have any positive impact on national security. Obviously before the need for an adequate U.S. merchant marine can be met, the need must first be defined. We urge now, as we have in the past, that the government clearly define the vessel requirements needed to meet national security objectives. A bill currently under consideration in the House, H.R. 3289, would establish a commission to define such requirements.

Mr. Chairman, let me amplify these four points.

ECONOMIC IMPACT

First, S. 1624, if enacted, would impose unnecessary and significant costs on consumers just when this country is emerging from the worst recession in nearly four decades. Based on current estimates, the construction cost of U.S.-flag tankers is almost three times that of comparable foreign flag tankers. The average annual operating cost of U.S.-flag tankers (excluding fuel and port charges) is over two and a half times foreign flag tankers. The wage component alone is triple foreign costs. Clearly, the high cost of building and operating U.S. tonnage cripples the ability of U.S.-flag vessels to compete in world trade.

To compete in international trade, we, as a nation, should concentrate on the production and export of products in which we have a competitive advantage. Only in this way can we minimize our overall costs and improve our international balance of payments.

The difference between the cost of continuing to use foreign flag tankers and the cost of using U.S.-flag ships would unnecessarily inflate the price of imported crude and other domestic energy supplies that compete with foreign crude. The added crude transportation cost would be embedded in the prices of all refined products. By the year 2000, when the 20 percent U.S.-flag requirement would be effective, the U.S. consumer would be paying $27 billion more per year in then-current dollars for petroleum-based products than would be the case if no such requirement were imposed. Assuming imported crude oil is the marginal energy source, and its price increase is fully reflected in other energy sources with which oil competes, the U.S. consumer would be paying $66 billion a year more for energy in then-current dollars by the year 2000 (see attachment 2). A better definition of an unnecessary consumer burden for which there is no corresponding benefit could hardly be written.

Unemployment today is of great concern to our nation. Proponents of cargo preference legislation point to increased jobs in the maritime industries as a positive aspect of this legislation. What is not discussed is the capital cost of these jobs. It is our estimate that each job, created as a result of tanker construction and operation, will cost between 1.2 and 1.5 million dollars. Artificially higher transportation costs, demand for other goods and services, employment and real gross national product are related. If ultimate consumers must pay billions more for petroleum, without receiving any additional benefit, they obviously cannot spend that money for other goods and services. Thus, other industries will be smaller. Resources will be diverted from less capital intensive industries that provide greater employment per unit of investment. This will lead to lower employment overall even taking into account higher employment in shipbuilding and merchant marine industries. Cargo preference will also lead to lost overseas markets for U.S. bulk exports with attendant increases in unemployment in these industries. Although we are unable to quantify the overall increase in unemployment that would result, the direction should be obvious.

Cargo preference would also result in economic waste. It would require construction of new vessels when there is already an unprecedented surplus of world tankers. At the end of January 1983 about 61 million dwt or 410 tankers were laid up. This surplus situation is expected to continue into the late 1980's or early 1990's. Yet the proposed bill would have the U.S. build new vessels at a cost 10 times higher than their current selling price on the world market. A more conspicuous waste of national resources can hardly be imagined.

Much of the support for cargo preference derives from U.S. shipyard interests which fear declining commercial ship construction work. If enacted, this legislation would generate new commercial orders supplementing Navy construction work. This situation should be viewed in perspective. Shipyards throughout the world, even the most efficient yards, are facing serious difficulties. It has been reported that without new orders, many free world shipyards will be on the point of closure within 18 months. I would agree with this assessment. There is a massive world overcapacity of shipbuilding today—perhaps two to three times what the world requires. This overcapacity combined with the worldwide tonnage surplus presents a bleak outlook for all shipbuilders. In this situation, U.S. yards are actually faring better than many of their foreign counterparts, thanks to the ongoing Navy construction program. Under S. 1624, they would fare even better. Such a law would simply generate another captive market for high cost U.S. shipbuilders. In sum, this is special interest legislation which would aid a small segment of industry to the detriment of all U.S. consumers.

In addition, Section 103(a)(D) of S. 1624 would require that a minimum of 50 percent of each article on the vessel, exclusive of the hull and superstructure, be of U.S. manufacture. This requirement applies to every piece of outfitting equipment, from cargo valves to electronic navigation equipment to the stove in the galley. In practical terms, this means no foreign equipment, even if, as in the case of large cargo valves, there is currently no domestic source available. Due to the necessity of having to create new industrial capability for an item with limited demand, the cost of this equipment will be highly inflated. This additional cost factor has not been taken into account in our economic impact analysis. World industrial and technological capability is not stagnant. To impose such a restrictive requirement on outfitting equipment would preclude the U.S. owner from taking advantage of higher quality components or technological advances available outside the U.S. and isolate U.S. manufacturers from foreign competition.

S. 1624 tries to soften the impact of cargo preference on the cargo owner by allowing a tax credit of 10 percent of the freight rate differential between U.S. and foreign flag tankers. A differential that ranges from 230 to over 500 percent. This "carrot" does little to change the economics and does nothing to change our fundamental opposition to the concept of cargo preference. It only serves to shift part of the tremendous cost burden from the cargo owner and consumer to the taxpayer.

Mr. Chairman, if the U.S. requires a specific sealift capability for national security purposes, under the U.S. flag, then the most inexpensive way to achieve that capability is to first define the requirements and then provide for the necessary ships on budget.

IMPACT ON WORLD TRADE

Now I'd like to turn to the effect of the bill on world trade.

The international tanker market today is extremely competitive. Given the current depressed state of the world tanker market, U.S. consumers are benefitting from extremely low freight rates—a situation that is likely to continue until the late 1980s or early 1990s. The imposition of cargo preference, however, would negate that consumer advantage.

Such a law would create captive markets for existing and new U.S.-flag tonnage, thereby increasing upward pressure on U.S.-flag tanker market rates in domestic service. Similarly, the cost of newbuildings in U.S. shipyards would increase substantially as shipyards reaped the benefit of orders placed to satisfy U.S.-flag requirements. It is naive to believe that the price control mechanism discussed in S. 1624 is either practicable or workable. It will not have any marked effect on the conditions just described.

Cargo preference would likely also trigger a proliferation of cargo preference laws by other countries, thereby disrupting the free flow of international commercial cargoes. Oil-producing countries which have established tanker fleets have offered their vessels at competitive market rates even under today's depressed foreign tanker market conditions. Enactment of a flag quota measure by the United States, a major trading nation, would surely prompt those oil-exporting nations to require that a similar percentage of their exports be carried in their ships at rates comparable to those of the importing nation. Such imitation and retaliation by foreign governments could increase the cost of foreign flag vessels by as much as, if not more than, the direct cost of U.S. cargo preference. Certainly, a foreign oil-producing country could not be expected to provide tonnage to a captive market at less than U.S.-flag rates.

There could be a further, more ominous development. As more governments took steps to require vessels to be under their own flag and to be locked in dedicated trades with their own countries, there would be less opportunity to employ vessels now under U.S. effective control (USEC). The USEC fleet could be expected to decline over time. Consequently, cargo preference legislation could actually result in the reduction of this country's access to tanker tonnage in time of emergency, and thereby weaken our national security.

Cargo preference also runs counter to established U.S. policy based on the principles of free international trade. This legislation would violate, at a minimum, fifteen existing treaties of friendship, commerce and navigation.

INCREASED BUREAUCRATIC COMPLEXITY AND COSTS

In addition to the direct economic costs we have already discussed, the committee must also consider the costs of administering this law. History tells us that these costs will be substantial. We need only look at the Maritime Administration's experience (1955 to 1971) in determining guideline rates for the carriage of government-impelled cargos. Such rates were theoretically designed to guarantee "reasonable compensation to the carrier, including a fair profit." However, MarAd experienced insurmountable problems with this program due to: lack of agreement on a fair method for calculating rates; its inability to respond adequately to the expanding complexities in government-impelled bulk cargo trades; the increased variety of vessel types serving the bulk trades; and its inability to rationalize premium U.S.-flag rates with the vessel operating differential subsidy program. This MarAd "guideline rate" publication program was finally discontinued to these administrative difficulties.

The MarAd experience, which dealt essentially with one general cargo type (i.e., bulk grains), relatively few vessel types, and a limited number of export trades involving only non-commercial cargoes, is strong evidence that the "guideline rate" concept envisioned in S. 1624 is administratively unworkable. The bulk shipping market has become increasingly complex since 1971, creating further difficulties in determining "guideline rates" in any context, whether government-impelled or commercial. Moreover, unlike the existing cargo preference laws, S. 1624 would extend to all types of bulk cargo in any geographical trade, regardless of vessel type, commodity or port pair. The "guideline rate" concept also requires consideration of such intangibles as the price sensitivity of export markets for a vast number of particular commodities, i.e., a determination of the extent to which freight rates may be escalated without making U.S.-origin commodities uncompetitive in world commercial markets. The exercise of calculating "guideline rates" would thus be more difficult by several orders of magnitude than the corresponding task under existing U.S. cargo preference laws which had to be abandoned by MarAd in 1971.

We believe that in a short time, the "guideline rate" procedures would degenerate into a price control program subject to all the political pressures, inequities and inadequacies that inevitably accompany such programs. Our recent experience with petroleum price controls clearly demonstrates that the end result is an ever-growing bureaucracy which unnecessarily imposes higher prices on consumers.

NATIONAL SECURITY CONSIDERATIONS

Finally, Mr. Chairman, let us consider the effect of this measure on national security. The sponsors argue that cargo preference is necessary to insure the availability of a U.S.-flag merchant marine in order to satisfy our national security requirements. To support that claim they point to the British experiences in supplying their combat forces during the Falklands conflict. Let us examine this claim in greater detail.

Attachment 4 to this testimony, supplied by the U.S. Maritime Administration, lists those merchant vessels used by the British during the Falklands crisis. The British chartered 19 product tankers and five chemical carriers for either underway replenishment or storage. The largest of the replenishment tankers was 25,900 dwt. The largest storage tanker was 57,900 dwt and the smallest 8,100 dwt. The chemical carriers ranged in size from 8,000 dwt to 31,700 dwt.

Under S. 1624, however, entirely different kinds of vessels would be built. For example, not one of the tankers chartered by the British was a crude oil carrier—yet that is primarily the type of tanker that would be built under this legislation. Furthermore, owners would seek to minimize their costs and secure economies of scale by satisfying the law with the largest possible tankers. We estimate that owners would build only eight tankers to satisfy petroleum import requirements in a size range that would be useful to the Navy in a time of national emergency. To put it another way, the legislation would result in a capital outlay of $24 billion to build approximately 81 tankers, very few of which would be useful in a combat support role.

Since World War II, neither U.S. effective control vessels nor U.S.-flag vessels have been requisitioned for service during a national emergency. Nevertheless, U.S. effective control vessels have been credited with accommodating the nation's sealift requirements during the Korean and Vietnamese conflicts. During the Korean conflict, U.S. companies committed both their U.S.-flag and USEC fleets to a voluntary tanker pool, and the USEC vessels made most of the foreign tanker voyages to that combat area. Throughout the Vietnam conflict, USEC tankers were engaged on a commercial basis in the carriage essential petroleum products to South vietnam.

During the twelve-month period ending March 31, 1967, 61 voyages to or between South Vietnamese ports were made by USEC tankers, delivering over 5.5 million barrels of petroleum products. During the same time, these ships spent an aggregate of 429 days in Vietnamese waters as floating storage or in shuttle service transferring petroleum products to and from other tankers, including vessels under military charter—without any failure to perform as directed.

It is true that the U.S. imports huge quantities of strategic commodities in foreign flag bulk cargo vessels. It is pure fiction to suggest that this bill would reduce our vulnerability, as a nation, to a supply cutoff. The risks associated with a cutoff lie not with the transportation of those commodities or the vessel's flag, but rather with our ability to secure both the trade routes and supply sources.

Mr. Chairman, as previously stated, before the need for an adequate U.S. merchant marine can be met, it must first be defined. We urge now, as we have in the past, that the government clearly define the vessel requirements needed to meet national security objectives. To our knowledge, such a definition of our defense needs has never been undertaken. Without such a definition, no legislative action requiring off budget financing of many billions of dollars to modify or expand the existing U.S. merchant fleet can be justified. Such a study must recognize and fully consider the world's huge tanker glut and the availability, size and contribution of USEC fleet. It should be recognized that many USEC vessels have been used by the U.S. in time of crisis. They are indeed available to this nation in the event of war or national emergency as they were during the Korean and Vietnamese conflicts.

SUMMARY

In summary, API is most strongly opposed to any cargo preference legislation. Enactment of a mandatory cargo preference bill would raise energy costs, increase unemployment, increase our foreign trade deficit, reduce U.S. exports, violate longstanding free trade principles and treaties, and misallocate national resources, both physical and financial, at the very time our nation is striving to come out of the recession. Finally, there is no evidence to indicate cargo preference is needed for our national security.

Mr. Chairman, I would be happy to answer any questions that you may have.

ATTACHMENT 1.—S. 1616: ESTIMATED INCREMENTAL COST OF RAISING SPR U.S.-FLAG REQUIREMENT FROM 50 TO 100 PERCENT

	Foreign crude SPR fill volumes (million barrels)			Incremental SPR fill costs (then current dollars)				
				From Mexico		From North Sea		Total millions per year
	From Mexico	From North Sea	Total	Cost per barrel	Millions per year	Cost per barrel	Millions per year	
1983	13.2	6.8	20.0	$0.52	$6.9	$1.27	$8.6	$15.5
1984	16.5	8.5	25.0	.55	9.1	1.35	11.5	20.6
1985	16.5	8.5	25.0	.58	9.6	1.43	12.2	21.8
1986	16.5	8.5	25.0	.62	10.2	1.51	12.8	23.0
1987	16.5	8.5	25.0	.66	10.9	1.60	13.6	24.5
1988	16.5	8.5	25.0	.70	11.6	1.70	14.5	26.1
1989	16.5	8.5	25.0					
1989	16.5	8.5	25.0	.74	12.2	1.80	15.3	27.5
1990	16.5	8.5	25.0	.78	12.9	1.91	16.2	29.1

ATTACHMENT 1.—S. 1616: ESTIMATED INCREMENTAL COST OF RAISING SPR U.S.-FLAG REQUIREMENT FROM 50 To 100 PERCENT—Continued

	Foreign crude SPR fill volumes (million barrels)			Incremental SPR fill costs (then current dollars)				
				From Mexico		From North Sea		Total millions per year
	From Mexico	From North Sea	Total	Cost per barrel	Millions per year	Cost per barrel	Millions per year	
Total	[1] 128.7	[1] 66.3	[2] 195.0		$83.4		$104.7	$188.1

[1] Per DOE: We have assumed a continuing source split of 66 percent Mexican and 34 percent North Sea and an evenly prorated fill through 1990. Current DOE stated cost differentials are inflated at 6 percent per year to give then current costs.

[2] Assumes current fill equal 317.9 million barrels as of Apr. 30, 1983. Legislated limit equals 750 million barrels. So remaining fill is 750 minus 317.9 equal 432.1 million barrels. Assuming 10 percent of fill continues to be ANS, 389.9 million barrels will be foreign source crude. At issue is the transport of 50 percent of this or 195 million barrels.

ATTACHMENT 2.—STEPS FOLLOWED IN DEVELOPING API'S ESTIMATE OF ECONOMIC IMPACT OF H.R. 1242

Table	
3	1. Develop inflation estimates and inflate capital and operational costs based on Tables 9 and 10 through the year 2000.
4, 5, 6, 7	2. Development construction and operational costs for United States and foreign flag tankers of 30,000 dwt, 80,000 dwt and 250,000 dwt.
8	3. Develop forecasts for U.S. imports by source and U.S.-flag requirements through the year 2000.
8	4. Estimate split between short, medium and long haul crude import trades.
9	5. Based on Table 8, estimate number of U.S. vessels required to meet requirements of H.R. 1242 and S. 1624.
9, 10	6. Based on Tables 4-7 and 9, develop increased cost (1983 dollars) of 20 percent of all petroleum imports and exports.
2	7. Based on Table 3 and assuming retaliation by foreign crude source countries equals U.S. requirements (in year 2000 40 percent of imports carry the cost increases), develop cost increases of imports.
2	8. Spread this impact over all imports to get average dollar per barrel impact on imports.
1	9. Assume cost of domestic production rises to meet average price increase of all imports. Assume cost of all energy rises at same rate/Btu.

TABLE 1.—COST INCREASES: PETROLEUM AND ALL ENERGY

	Year			
	1985	1990	1995	2000
Change in import costs (dollars per barrel) [1]	$0.59	$1.55	$2.36	$3.98
Oil:				
Imports—MB/D:				
Crude	6.4	5.1	6.8	7.2
Products	.5	.5	.5	.5
Total	6.9	5.6	7.3	7.7
Billion dollar increase per year	$1.49	$3.17	$6.29	$11.19
U.S. total supply, MB/D	16.6	15.7	18.0	18.4
Billion dollar increase per year	$3.57	$8.88	$15.51	$26.73
Total energy consumption: [2]				
Quadrillion Btu's per year	80.6	87.0	92.0	97.0
Oil equivalent, MB/D	37.9	40.9	43.2	45.6
Billion dollar increase per year	$8.16	$23.14	$37.21	$66.24

[1] See table 2 for derivation.

[2] Date from preliminary draft of Fourth National Energy Policy Plan (NEPPV) as published in Energy Users Report.

TABLE 2.—COST INCREASES: IMPORTED PETROLEUM

Vessel size	30 MDWT	80 MDWT	VLCC	Average
U.S. flag differential (dollars per barrel):				
1983 to 1990	2.55	3.73	[1] 5.98	
1995 to 2000	2.55	3.73	[2] 3.74	
Increased by inflation factor [3] (dollars per barrel) 85 to 1.125:				
1985—1.25	2.87	4.20	6.73	
1990—1.507	3.84	5.62	9.01	
1995—2.042	5.21	7.62	7.64	
2000—2.732	6.97	10.19	10.22	
Percent of each size tanker:				
1985	26	33	41	100
1990	16	33	51	100
1995	11	32	57	100
2000	8	25	67	100
Incremental cost (dollars per barrel):				
1985, less 6 percent U.S.-flag				[4].29
1990, less 11 percent U.S.-flag				.78
1995, less 16 percent U.S.-flag				1.18
2000, less 20 percent U.S.-flag				1.99
Increased by 100 percent to use national flags by oil export nations (dollars per barrel):				
1985				.59
1990				1.55
1995				2.36
2000				3.98

[1] Based on used foreign-flag VLCC. See table 7.
[2] Based on new foreign-flag VLCC.
[3] See table 4.
[4] Example calculation for 1985: 6%×[26%(3.16)+33%(4.60+41%(7.18)]=0.32.

CARGO RESERVATION: SUMMARY OF INCREMENTAL COSTS

[Dollars in billions]

Calendar year	Act year	GNP delator (percent) [1]	Inflation factor [2]	Incremental United States versus foreign costs			
				Construction costs		Operating cost (including capital charge)	
				1983	Inflated	1983	Inflated
1983	0	4.4					
1984	1	5.0	1.069	$2.55	$2.73	$0.51	$0.55
1985	2	5.4	1.125	.47	.53	.68	.77
1986	3	5.8	1.188	.52	.62	.80	.95
1987	4	6.0	1.258	.59	.74	.93	1.17
1988	5	6.3	1.335	.61	.81	1.09	1.46
1989	6	6.2	1.418	.62	.88	1.25	1.77
1990	7	6.3	1.507	.63	.95	1.41	2.12
1991	8	6.5	1.604	.61	.98	1.50	2.41
1992	9	6.3	1.706	.59	1.01	1.57	2.68
1993	10	6.2	1.813	.56	1.02	1.62	2.94
1994	11	6.1	1.924	.51	.98	1.66	3.19
1995	12	6.1	2.042	.50	1.02	1.68	3.43
1996	13	6.0	2.164	.50	1.08	1.81	3.92
1997	14	6.0	2.294	.51	1.17	1.94	4.45
1998	15	6.0	2.432	.51	1.24	2.08	5.06
1999	16	6.0	2.578	.10	.26	2.21	5.70
2000	17	6.0	2.732	.10	.27	2.24	6.12
Total				10.48	16.29	24.98	48.69

[1] Public forecast of Data Resources, Inc. (DRI) through 1995; assumed @ 6 percent thereafter.
[2] Assumes average expenditure occurs at midyear. Therefore, factor for a given calendar year averages current and previous year's deflator. E.G., Factor for 1987=1.188 × (1+(.058+.060÷2))=1.258.

TABLE 4.—CARGO RESERVATION: UNITED STATES VERSUS FOREIGN-FLAG TANKER ECONOMICS—30,000 DEADWEIGHT TONS TANKERS TRADING CARIB/USNII

[In millions of 1983 dollars][1]

	U.S. flag	Foreign flag	Difference in favor of foreign flag
Engine type (diesel).			
Speed (knots):			
Loaded	14.8		
Bunker consumption:			
Ballast	15.7		
Steaming (LT/D)	37.1		
Hotel (LT/D)	3.5		
Pumping (LT)	21.0		
Lube oil LT/D	.2		
Operating days/year	350		
Crew, stores and water (LT)	225		
Trade [2]			
Round trip days	13.1		
Annual cargo (MLT)	787.3		
Crew complement[3]	27	27	–
Construction cost (in millions) [4]	$82,500	$28,500	$54,000
Annual costs ($m/yr.):			
Labor [3]	3,200	1,000	2,200
Maintenance and repair	1,400	550	850
Insurance [5]	825	285	540
Miscellaneous [6]	450	450	
25 percent ROR capital charge [7]	22,060	7,620	14,440
*Subtotal—fixed cost	27,935	9,905	18,030
Less 20 percent [8]	(5,587)		(5,587)
Port and Fuel [9]	2,754	2,754	
Annual cost	25,102	12,659	12,443
Plus 10 percent inflexibility premium [10]	2,510		2,510
Total annual cost	27,612		14,953
Price for barrel [11]	4.70	2.15	2.55

See footnotes at end of table 6.

TABLE 5.—CARGO RESERVATION: UNITED STATES VERSUS FOREIGN-FLAG TANKER ECONOMICS—80,000 DEADWEIGHT TONS TANKER TRADING WEST AFRICA/USNII

[In millions of 1983 dollars][1]

	U.S. flag	Foreign flag	Difference a in favor of foreign flag
Engine type (diesel): Speed (knots):			
Loaded	14.6		
Ballast	15.7		
Bunker consumption:			
Steaming (LT/D)	16.3		
Hotel (LT/D)	5.0		
Pumping (LT)	35.0		
Lube oil LT/D	.3		
Operating days/yr	350		
Crew, stores and water (LT)	350		
Trade [2] (Bonny/New York)			
Round trip days	33.4		
Annual cargo (MLT)	826.4		
Crew complement [3]	27	27	

TABLE 5.—CARGO RESERVATION: UNITED STATES VERSUS FOREIGN-FLAG TANKER ECONOMICS—80,000 DEADWEIGHT TONS TANKER TRADING WEST AFRICA/USNII—Continued

[In millions of 1983 dollars] [1]

	U.S. flag	Foreign flag	Difference a in favor of foreign flag
Construction cost (in millions) [4]	$127,000	$40,000	$87,000
Annual costs (millions per year)			
Labor [3]	3,200	1,000	2,200
Maintenance and repair	1,800	700	1,100
Insurance [5]	1,270	400	870
Miscellaneous [6]	500	500	
25 percent ROR capital charge [7]	33,960	10,696	23,264
Subtotal—fixed cost	40,730	13,296	27,434
Less 20 percent [8]	(8,146)		(8,146)
Port and fuel [9]	4,576	4,576	
Annual cost	37,160	17,872	19,288
Plus 1o percent inflexibility premium [10]	3,716		3,716
Total annual cost	40,876	17,872	23,004
Price per barrel [11]	6.63	2.90	3.73

See footnotes at end of table 6.

TABLE 6.—CARGO RESERVATION: UNITED STATES VERSUS FOREIGN-FLAG TANKER ECONOMICS—250,000 DWT TANKER TRADING ARAB GULF/USGC

[In millions of 1983 dollars] [1]

	U.S. flag	Foreign flag	Difference in favor of foreign flag
Engine type (steam turbine): Speed (knots):			
Loaded	14.1		
Ballast	15.5		
Bunker consumption:			
Steaming (LT/D)	142.0		
Hotel (LT/D)	16.0		
Pumping (LT)	146.0		
Lube oil (LT/D)			
Operating days/yr	353		
Crew, stores and water (LT)	625		
Trade [2] Ras Tanura/LOOP			
Round trip days	75.54		
Annual cargo (MLT)	1,143.3		
Crew complement [3]	28	34	(6)
Construction/purchase cost ($M) [4]	$203,000	$8,000	$195,000
Annual costs (millions per year):			
Labor [3]	3,300	1,225	2,075
Maintenance and repair	1,900	750	1,150
Insurance [5]	2,030	80	1,950
Miscellaneous [6]	640	640	
25 percent Capital charge [7]	54,282	1,810	52,472
Subtotal—Fixed cost	62,152	4,505	57,647
Less 20 percent [8]	(12,430)		(12,430)
Port and fuel [9]	7,946	7,946	
Annual cost	57,668	12,451	5,217
Plus 10 percent inflexibility premium [10]	5,767		5,767
Total annual cost	63,435	12,451	50,984
Price per barrel [11]	7.44	1.46	5.98

[1] Except where noted, assumes typical characteristics for new construction.

[2] Typical U.S. import trade for the given vessel size was chosen. Approximate milesage are as follows: Aruba/N.Y.—1,800 Nautical Miles; Bonny-N.Y.—5,200 Nautical Miles; and Ras Tanura/LOOP—12,300 Nautical Miles (Cape/Cape).

[3] Foreign crew assumed to be Scandinavian officers and Korean seamen.

[4] Foreign construction assumed to be in Japanese shipyard. All vessels are new construction except the foreign flag 250 MDWT ship. Due to current overwhelming surplus of these vessels, lasting perhaps for next ten years purchase of a 2- to 4-year old VLCC in excellent condition, for $8 million has been assumed for new vessels required through 1990. Thereafter, new vessel cost shows straight line growth to full new construction cost of $81 million in 1995 and thereafter.

[5] Insurance assumed to be 1 percent of capital cost.

[6] Includes stores, tools, feeding and overhead.

[7] Charge yields capital recovery plus 25 percent real rate of return before tax over 20 year life. Except for foreign flag VLCC, assumes construction cost expended an average of about one year before delivery.

[8] Based upon S. 1624; Sec. 105(b)93), which requires Secretary's cost estimates set no higher than 20 percent below initial estimates. Assuming initial estimates are set accurately, we feel this savings in unattainable through mere "mass production" economics as implied.

[9] Assumes banker fuel at $167 to $182/LT depending on trade.

[10] Inflexibility premium included to cover such diseconomies as: (a) Inability to backhaul or trade triangularly due to conflicting laws and/or tonnage quotas; (b) Costly ballast positioning for shipyard periodic overhauls due to scheduling anomalies arising from a non-homogeneous fleet; and (c) Incremental scrapping of perfectly serviceable existing foreign flag vessels which now become surplus.

[11] Assumes 7.46 bbl-LT.

TABLE 8.—CARGO RESERVATION: FORECAST H.R. 1242 EFFECT ON IMPORTS/EXPORTS

Act year	Calendar year	Percent U.S.-flag request	Estimated crude and product imports/exports (MB/D)				Total annual imports/exports in U.S.-flag vessels (MBBL)			
			Short haul (30 MDWT)	Medium haul (80 MDWT)	Long haul (250 MDWT)	Total	Short haul (30 MDWT)	Medium haul (80 MDWT)	Long haul (250 MDWT)	Total
1	1984	5	1.80	2.20	2.50	6.50	33	40	46	119
2	1985	6	1.80	2.34	2.92	7.06	40	51	64	155
3	1986	7	1.80	2.36	2.99	7.15	46	60	77	183
4	1987	8	1.80	2.38	3.06	7.24	50	69	92	211
5	1988	9	1.80	2.41	3.12	7.33	50	79	112	241
6	1989	10	1.80	2.43	3.19	7.42	50	89	132	271
7	1990	11	1.80	2.45	3.26	7.51	50	99	153	302
8	1991	12	1.80	2.47	3.33	7.60	50	109	174	333
9	1992	13	1.80	2.50	3.39	7.69	50	119	196	365
10	1993	14	1.80	2.52	3.46	7.78	50	129	219	398
11	1994	15	1.80	2.54	3.53	7.87	50	139	242	431
12	1995	16	1.80	2.56	3.60	7.96	50	150	265	465
13	1996	17	1.80	2.59	3.66	8.05	50	150	300	500
14	1997	18	1.80	2.61	3.73	8.14	50	150	335	535
15	1998	19	1.80	2.63	3.80	8.23	50	150	371	571
16	1999	20	1.80	2.65	3.87	8.32	50	150	407	607
17	2000	20	1.80	2.68	3.93	8.41	50	150	414	614

Basis:

(1) Total imports and exports based upon U.S. Department of Energy projections. Assumes imports conform to their "Mid Price Case" scenario in 1985 and show straight line growth to their "Low Price Case" in 1995, continuing at the same rate thereafter.

(2) The split between short, medium and long haul trades is derived from a review of U.S. Department of Energy 1981 Petroleum Supply Annual figures for imports by source. At the 1981 historical level of 6,000 MB/D, roughly 1,800 MB/D were short haul and 2,200 MB/D medium haul. 1984 holds these levels constant with long haul assuming the remaining 2,500 MB/D. Thereafter, all growth is split 25 percent/75 percent between medium and long haul, respectively.

(3) The split between U.S. Flag vessel sizes is assumed to be heavily disproportionate in favor of larger vessels as shippers attempt to minimize their incremental costs through the economies of scale:

30 MDWT—Assumed to grow proportionately until imports reach 50 MB/Y, where they remain constant. This is assumed to represent the minimum import level shippers can attain while permitting each shipper to meet the requirements of the act.

80 MDWT—Assumed to grow proportionately until they reach 150 MB/Y, where they remain constant.

VLCC—Assumed to absorb all U.S. Flag import/export requirements not covered above.

TABLE 9.—CARGO RESERVATION: ESTIMATED INCREMENTAL U.S.-FLAG OPERATING COST

[In 1983 dollars]

Calendar year	Act year	U.S.-flag vessel requirements			Incremental annual United States versus foreign operating cost including capital charge			
		30 MDWT	80 MDWT	250 MDWT	30 MDWT (millions)	80 MDWT (millions)	250 MDWT (millions)	Total (billions)
1984	1	5.6	6.5	5.4	$84	$149	$275	$0.51
1985	2	6.8	8.3	7.5	102	190	383	.68
1986	3	7.8	9.7	9.0	117	224	460	.80
1987	4	8.5	11.2	10.8	127	257	550	.93
1988	5	8.5	12.8	13.1	128	295	670	1.09
1989	6	8.5	14.4	15.5	127	332	789	1.25
1990	7	8.5	16.1	17.9	128	369	915	1.41
1991	8	8.5	17.7	20.4	127	407	963	1.50
1992	9	8.5	19.3	23.0	128	444	996	1.57
1993	10	8.5	20.9	25.7	127	481	1,015	1.62
1994	11	8.5	22.6	28.4	128	518	1,014	1.66
1995	12	8.5	24.4	31.1	127	559	991	1.68
1996	13	8.5	24.4	35.2	128	560	1,122	1.81
1997	14	8.5	24.4	39.3	127	559	1,253	1.94
1998	15	8.5	24.4	43.5	128	560	1,388	2.08
1999	16	8.5	24.4	47.7	127	559	1,522	2.21
2000	17	8.5	24.4	48.5	128	560	1,548	2.24
								24.98

TABLE 10.—CARGO RESERVATION: ESTIMATED COST OF NEW U.S. CONSTRUCTION

[In 1983 dollars]

Calendar year	Act year	U.S. vessel requirements to comply with H.R. 1242 [1]			Incremental construction cost-United States verus Foreign [2]				Cumulatiy (billions)
		30 MDWT	80 MDWT	250 MDWT	30 MDWT (millions)	80 MDWT (millions)	250 MDWT (millions)	Total (billions)	
1984	1	5.6	6.5	5.4	$367	$722	$1,463	$2.55	$2.55
1985	2	6.8	8.3	7.5	54	122	293	.47	3.02
1986	3	7.8	9.7	9.0	38	131	351	.52	3.54
1987	4	8.5	11.2	10.8		139	449	.59	4.13
1988	5	8.5	12.8	13.1		139	468	.61	4.74
1989	6	8.5	14.4	15.5		148	468	.62	5.35
1990	7	8.5	16.1	17.9		139	488	.63	5.98
1991	8	8.5	17.7	20.4		139	471	.61	6.59
1992	9	8.5	19.3	23.0		139	448	.59	7.18
1993	10	8.5	20.9	25.7		148	410	.56	7.73
1994	11	8.5	22.6	28.4		139	369	.51	8.24
1995	12	8.5	24.4	31.1			500	.50	8.74
1996	13	8.5	24.4	35.2			500	.50	9.24
1997	14	8.5	24.4	39.3			512	.51	9.75
1998	15	8.5	24.4	43.5			512	.51	10.27
1999	16	8.5	24.4	47.7			98	.10	10.36
2000	17	8.5	24.4	48.5			98	.10	10.46

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[1] Based on total annual imports/exports from previous page and following annual capacities: Short Haul/30 MDWT–5.87 M bbl. per year per vessel; Medium Haul/80 MDWT–6.16 M bbl. per year per vessel; and Long Haul/250 MDWT–8.53 M bbl. per year per vessel.

[2] Requirement lags one year after expenditure except for initial year.

ATTACHMENT 4.—MERCHANT SHIPPING CHARTERED/REQUISITIONED BY THE BRITISH FOR THE FALKLAND ISLANDS CRISIS

Military use, type, and vessel name	Tonnage	Year built	Owner	Flag	Special features [1]
Troopship (3 ships):					
Passenger:					
Canberra	44,807 (GRT)	1961	P&O	British	1,702 passenger berths, 27.5 kts. (R).
Queen Elizabeth 2	67,000 (GRT)	1969	Cunard	do	1,970 passenger berths, 28.5 kts. (R).
Passenger/cargo, St. Helena.	3,150 (GRT)	1963	Curnow Shipping.	do	76 passenger berths (C).
Hospital ship (1 ship): School cruise liner: Uganda.	16,907 (GRT)	1952	P&O	do	1,224 passeger berths (R).
Troopship/unit equipment (4 ships):					
Pass/ferry/Ro/Ro:					
Europic Ferry	4,190 (GRT)	1968	European	do	Stern door/vehicles—82 TEU/44 berth pass (R).
Norland	12,988 (GRT)	1974	North Sea Ferries.	do	Stern door and ramp vehicles—268 TEU/1072 berth and 171 deck pass (R).
Rangatira	9,387 (GRT)	1972	Union SS	do	Stern door/vehicle accommodation/1300 pass (C).
St. Edmund	8,987 (GRT)	1974	Sealink	do	Bow and stern doors/vehicles/671 berth and 729 deck pass (R).
Unit equipment cargo ship: (4 ships):					
Ro/Ro cargo:					
Elk	8,652 (DWT)	1977 PSO ferries.	do	Stern door and ramp/vehicles—562 TEU/ice strengthened (R)..	
Baltic ferry	8,704 (DWT)	1978	Stena line (Townsend Thoresen).	do	Do.
Nordic ferry	8,704 (DWT)	1978	Stena Line (Townsend Thoresen).	do	Do.
Tor Caledonia	9,882 (DWT)	1977	Whitwell and Co.	do	Stern ramp/vehicles—453 TEU (R).
Aircraft transport (3 ships):					
Atlantic Causeway	18,146 (DWT)	1969	Cunard	do	Stern door and ramp/side doors/vehicles—738 TEU/ice strengthened (R).
Atlantic Conveyor (sunk).	18,146 (DWT)	1970	do	do	Do.
Contender Bezant	22,000 (DWT)	1981	Sea container.	British (Bermuda).	Quarter bow door and ramp/side door and ramp/2–38 ton cranes (C).

Underway replenishment tankers (10 ships):						
Product tanker:						
British Avon	25,620	(DWT)	1972	British Petroleum.	British	Stern discharge (C).
British Dart	25,651	(DWT)	1972	do	do	Do.
British Esk	25,905	(DWT)	1973	do	do	Do.
British Fern	20,977	(DWT)	1964	do	do	Do.
British Ivy	20,977	(DWT)	1965	do	do	Do.
British Tamar	25,498	(DWT)	1973	do	do	Do.
British Tay	25,650	(DWT)	1973	do	do	Do.
British Test	25,641	(DWT)	1973	do	do	Do.
British Trent	25,147	(DWT)	1973	do	do	Do.
British Wye	25,196	(DWT)	1974	do	do	Do.
Storage tankers (13 ships):						
Product tanker:						
Alvega	57,372	(DWT)	1977	Silver Line	British (Bermuda).	Heat coils (C).
Balder London	33,751	(DWT)	1975	Augustsson Parley.	British	Do.
Scottish Eagle	56,490	(DWT)	1980	King Line	do	Do.
Eburna	31,375	(DWT)	1979	Shell	do	Do.
Esso Fawley	18,377	(DWT)	1967	Esso	do	(C)
Finnanger	37,797	(DWT)	1975	Westfal-Larsen.	Norwegian	Stern discharge/heat coils (C).
Luminetta	24,951	(DWT)	1972	Cunard	British	Stern discharge (C).
Vingo Polaris	8,098	(DWT)	1981	Johansson	Swedish	(C)
G. A. Walker	30,607	(DWT)	1973	Canadian Pacific.	British (Bermuda).	Heat coils/stern discharge (C).
Chemical Carrier:						
Anco Charger	25,300	(DWT)	1973	Panocean/ P&O.	British	Deck tanks (C).
Cortina	10,970	(DWT)	1981	Backman & Sonner.	Swedish	(L)
Corona	7,960	(DWT)	1976	do	do	(L)
Orionman	9,176	(DWT)	1975	Rowbotham Tankships.	British	Heat coils (C).
Water transport (1 ship):						
Chemical carrier:						
Fort Toronto	31,745	(DWT)	1981	Canadian Pacific.	British (Bermuda).	Coated tanks (C).
Cargo freighter (5 ships):						
Containership: Astonomer	27,867	(DWT)	1977	Charentess (Harrison Line).	British	1202 TEU/1-40 ton crane (R).
General Cargo:						
Laertes	13,447	(DWT)	1976	China Mutual Steam Navigation.	do	(R)
Lycaon	13,447	(DWT)	1976	do	do	(L)
Reefer Cargo: Geestport	7,637	(DWT)	1982	Geest Lines	do	(R)
General cargo: Saxonia	12,182	(DWT)	1972	Cunard	do	Side doors (C).
Minesweepers (5 ships):						
Stern fishing trawler:						
Cordella	1,238	(GRT)	1973	J. Marr & Son.	do	Ice strengthen (R).
Farnella	1,207	(GRT)	1972	do	do	Do.
Junella	1,615	(GRT)	1975	do	do	Do.
Northella	1,238	(GRT)	1973	do	do	Do.
Pict	1,478	(GRT)	1973	British United Trawler.	do	Do.

Firefighting/towing salvage operations (4 ships):					
Tug:					
Irishman	686 (GRT)	1978	United Towing.	do	Do.
Salvageman	1,598 (GRT)	1980	do	do	Anchor-handling/salvage/ice strengthened (R).
Offshore tug/supply: Wimpey Seahorse.	1,599 (GRT)		Wimpey Marine.	do	Anchor-handling/towing (R).
Tug: Yorkshireman	686 (GRT)	1978	United Towing.	do	Ice strengthened (R).
Repair/salvage ship (3 ships):					
Mothership for submersibles:.					
Britich Enterprise III	1,598 (GRT)	1965	Britich United Enterprise.	do	Converted stern trawler (R).
Oil rig maintenance:					
Stena Seaspread	6,061 (GRT)	1980	Stena Atlantic.	do	15 ton-360° crane/work shops (R).
Diving maintenance support: Stena inspector.	5,814 (GRT)	1981	do	do	Work shops/firefighting/ice strengthed (R).
Dispatch vessel (1 ship):					
Cableship: Iris	3,872 (GRT)		British Telecom.	do	Communications (R).
Total 57 ships.					

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[1] R=requisitioned, C=chartered.

[The following information was subsequently received for the record:]

QUESTIONS OF THE COMMITTEE AND THE ANSWERS THERETO

From Senator Inouye

Question. Is it accurate to say that the transportation cost premium that must be considered in weighing the merits of cargo reservation is the additional cost that would actually be seen by the purchaser of the commodity in question? And this cost is not the marginal cost per ton advanced by opponents of cargo reservation, but the marginal cost spread over all the trade in the affected commodity. In other words, shippers could not add the cost premium only to that portion of their business carried on U.S. vessels. Rather, they would increase the cost of all their shipments to cover the additional cost of the reserved portion.

Answer. In order to quantify the cost impact of a cargo preference requirement, the entire world market in that particular commodity must be examined, and reasoned judgments made of the impacts that could be expected. The U.S., as the world's largest importer of oil, could not unilaterally impose a disruptive program on the world's petroleum markets without triggering other adverse changes. Two major changes can be anticipated:

First, the cargo preference regime defined by S. 1624 would require the building of over 80 tankers to add to a depressed shipping market that currently has over 400 tankers laid up. Increasing the current surplus by 20 percent leaves the U.S. open to retaliation by the oil exporting countries, in particular those oil exporting countries who have surplus tanker tonnage. Given that terms of sale can be quickly changed from F.O.B., where the exporting country has to sell at depressed market prices, to C.I.F., where additional revenue can be generated by inflating freight costs, it is quite proper to assume that exporting countries will impose cargo preference requirements as onerous as those we impose on ourselves.

Second, the imported barrel of petroleum is the marginal energy source consumed in this country. As the price of imports rises due to increased transportation costs (as a result of actions taken by either the importing or exporting country), so will the price of all domestically produced oil. With the overall increase in petroleum prices, the selling price of competing forms of energy will also increase.

Question. Some commodity interests have urge that cargo preference should only apply to U.S. imports. That way our exports would remain competitive in world markets.

If there were no cargo preference for exports, how would U.S. bulkers be assured of cargo on the outbound portion of a voyage?

Would you please comment.

Answer. API has no comment on the dry bulk export trades. However, the question assumes that exports and imports will be carried in the same vessels. Although some independent owners have built vessels capable of carrying both liquid and dry bulk commodities, the primary rational behind their decision is generally a desire to provide trading flexibility. Due to differences in cargo lot sizes and location of production and consumption centers, there are very few trading patterns in the world today where OBO's (vessels capable of carrying both oil, bulk grains and ores) can compete with vessels designed specifically for a particular commodity. Given this fact, it would be more appropriate to assume that vessels carrying bulk petroleum imports would sail in ballast on the outbound leg and vessels carrying bulk coal and grain exports would sail in ballast on the inbound leg.

The U.S. does export some petroleum products. These shipments are made in smaller product carriers, not in the large tankers used to import crude oil.

Question. Some opponents of cargo reservation maintain that if national defense is dependent on U.S.-flag vessels, financing for construction and operation of these vessels should be paid out of the defense outlays and shared by all Americans.

Do you agree with this approach?

Answer. API has long supported a course of action where first an objective determination is made of the needed national defense sealift capability. This determination should include the numbers, capability and types of vessels required. This requirement should then be compared to existing fleets available to the U.S. in time of war or national emergency, including U.S.-flag, U.S. effective-control, NATO and other allies' fleets to see if additional vessels are required. If additional vessels are necessary, programs can then be developed which would build the required vessels on budget. In this way, the national defense is supported by all Americans, not just importers who will pass their increased costs to the consumer and exporters who will have to absorb the increased costs or lose export markets.

Question. It has been said that "unrestrained trading flexibility" is basic to the bulk sector because the market is characterized by rapid changes in the availability of cargo and the ships needed to carry it. Thus "market rate" instability is created, and a fierce competition environment is fostered.

If our operators are unable to respond effectively to these conditions, and we need a dry bulk fleet for national defense and economic reasons, would guaranteed cargo be a way to help them respond?

Answer. API has no comment on the dry bulk cargo market.

However, by definition, cargo preference requirements reduce the flexibility of the vessel operator. Our experience in the liquid bulk trades indicates that reduced flexibility alone will conservatively increase costs on the order of 10 percent. We also question whether a "dry bulk fleet is needed for our national defense and economic reasons." To our knowledge no study has identified dry bulk vessels as being useful in a national defense sealift capability. The economic reason that can be cited for cargo preference is employment of surplus shipyard capacity and maritime labor. If this is the intent of S. 1624, then the cost of the program should be put on budget not hidden in a cargo preference requirement.

Question. Successive administrations have publicly supported our cargo preference laws, and yet it seems not a year goes by when there is not at least one major instance where these laws have been evaded, or an inter-department conflict arisen.

For example, just a few years ago the Urban Mass Transportation Authority was responsible for the purchase of 400 buses constructed in Germany. Many of these buses were being delivered to the United States aboard Soviet-flag vessels until Congress raised the issue of our cargo preference laws.

Then there was the case of the sale of surplus butter to New Zealand through the Commodity Credit Corporation. The Department of Agriculture disagreed with MARAD, and refused to acknowledge that our cargo preference laws applied.

In response to my question at that time, Admiral Shear said he was "not completely satisfied" with the progress MARAD was making to assure that a "fair distribution of that cargo goes to U.S.-flag vessels."

More recently, GSA arranged for the purchase of 1.6 million tons of bauxite from Jamaica. Although our cargo preference laws applied, and two U.S.-flag vessels tendered offers to carry the cargo, both were summarily rejected by GSA because of the unique and questionable delivery requirements imposed by that agency. All of that cargo was carried on foreign bottoms.

The bauxite transaction was especially disconcerting because it involved the use of dry bulk carriers. Although dry bulk cargoes comprise about 40 percent of our foreign trade, less than 2 percent of it moves on U.S. bottoms.

Early this year, the Department of Agriculture entered into an agreement with Egypt whereby flour was purchased by Egypt from U.S. millers at $155 a ton. The U.S. government in turn provided the millers with grain in sufficient volume for them to make the sale at that price, including a profit.

The Department of Agriculture said our cargo preference laws did not apply; the Department of Transportation said they did. And there the matter stood. The Administration finally ruled that 50 percent of the wheat must go on U.S. ships, but it stopped short of saying that cargo preference laws applied.

Most recently, the Department of Transportation took the position that because the Jones Act applied to the shipment of oil from Alaska to the Strategic Petroleum Reserve (SPR), such shipments may not be counted towards the 50 percent U.S.-flag cargo preference share required of the importation of foreign oil for the SPR program.

The Department of Energy said Alaskan oil should count towards satisfying the 50 percent requirement.

The Department of Justice resolved the dispute in favor of the Department of Energy.

Under these circumstances, doesn't efficiency in government alone require legislation such as S. 206?

Answer. We support the approach taken by S. 206. However, we must qualify our support because the Secretary of Transportation is receiving only half of the tools needed to accomplish the task. The Secretary also needs the resources to accomplish the task. In this case, the resources that are missing are the funds necessary to pay the freight differential that exists between U.S.-flag and foreign flag vessels. Without the funds, the Secretary of Transportation is in the unenviable position of allocating monies from other departmental budgets. This situation would only worsen or perpetuate current problems. Speaking as taxpayers, we urge you to allocate the funds necessary to accomplish the task, make them a line item in DOT's budget and let the supporters of each program take their chances in the budget process.

Question. (A) According to most experts, what is the forecast for growth or decline for U.S. exports of major bulk commodities (grain, iron ore, and coal) over the next ten years; and for minor commodities (finished and semi-finished ferrous metal products; motor vehicles; forest products; various organic and inorganic refined chemicals and fertilizers, etc.)?

(B) If there is a growth trend, will this trend in and of itself motivate the addition of more dry bulkers to the U.S. fleet; or will it mean that more and more of our export cargoes will be carried on foreign bottoms?

Answer. API does not have information on forecasts or trends in dry bulk exports.

Question. It has been said that cargo reservation places the burden of subsidizing the U.S. merchant fleet on one class, i.e., shippers.

If it is in the national interest to have a strong merchant marine, would favor subsidizing it through adequate levels of CDS and ODS? In that event, the cost of subsidy is borne by everyone.

Answer. We do not agree that it is in the national interest just to have a merchant marine for its own sake. It is in the national interest to have a merchant marine if and only if those vessels provide a sealift capability necessary for national security purposes. Once the sealift capability is defined, it should be provided for on budget. ODS and CDS are just one of many tools that can be used to provide for the needed ships on budget. They would not necessarily be the preferred program. Before the decision is made on how to provide for a merchant sealift capability, we suggest that the required capability first be defined. At that time, a program can be developed that minimizes the cost impact on consumers and taxpayers.

Question. I realize your statement raises many specific concerns about the various bills, and the committee must consider all of them, as well as many others raised during the course of these hearings.

But there is one statement which goes right to the heart of the question of commercial cargo reservation. You state that it is API's basic belief that "the shipper of a cargo has the right to control the selection of the carrier."

I would certainly agree that this should be the case. But wouldn't you agree that this right should be subordinated if the national interest requires; and isn't that the case today? For example:

The Jones Act restricts that right in our domestic trades;

We have some government-to-government bilaterals which are implemented by commercial cargo sharing agreements. And these restrict that right.

Answer. API agrees that the national interest should take precedence over commercial interests, provided that the objective is accomplished efficiently and the burden is shared equitably with all citizens. It is not possible to assess fully cargo preference with respect to these criteria because the national interest objective and what is needed to meet it has not been defined.

It would be correct to state cargo preference is in the shipbuilding and maritime labor interests. In the absence of a national security justification, we do not agree that both commercial and national economic interests should be subordinated to the welfare of that small segment of our society. The mere fact that the right of a cargo owner to select the carrier is now or has been restricted in the past does not justify the restriction either ethically or economically.

From Senator Inouye and Senator Trible

Question. According to one source, a recent study conducted by the Center for Naval Analyses estimates that, under the House counterpart to S. 1624, the estimated percentage increase of the landed price of crude oil would be .54%.

Do you agree?

Answer. No, we do not agree. The Center for Naval Analyses study has underestimated the impact of cargo preference requirements on transportation costs. A summary of API comments on that study is appended to the cover letter.

From Senator Trible

Question. "We would like to see a detailed statement of your (cost) analysis, as well, and we would invite you to respond to the cost estimates put forward by both the SIU and CNA."

Answer. API's cost estimates are contained in Attachment 3 of our testimony. Page 1 of Attachment 3 details the steps taken to arrive at the cost impact of cargo preference on petroleum and other energy sources. Pages 2 through 11 of the attachment set forth the actual calculations. We will welcome the opportunity to discuss these calculations and their underlying assumptions with your staffs.

API's analysis of the cost estimate in the CNA study is given as an answer to Sen. Inouye's question (see answer to Question 7). We have not received the SIU cost analysis and, therefore, are unable to offer comments.

Question. "Mr. Banks, when you submit your cost analysis, I would like you to specifically quantify for us the estimated cents per gallon increase for gasoline at the pump."

Answer. We cannot know what the actual price increase would be at the pump as the cost increase can be allocated across the many products made from crude oil. However, as stated during the question and answer period, if the entire cost increase for petroleum imports were reflected in the price of motor gasoline, the price increases at the pump would be $0.25/gallon. This is arrived at as follows:

(1) Petroleum cost increase by the year 2000 is $26.73 billion/year (see Table 1 of the economic analysis attached to our statement).

(2) According to DOE, total U.S. petroleum consumption in the year 2000 is estimated to be 18.4Mbpd (again, see Table 1).

(3) Future average yield of motor gasoline from average crude barrel will be 38 percent.

(4) $26.73 billion/year divided by (18.4Mbpd) (365 days/year) (42 gal/bbl) (.38) equals $0.25/gal.

These calculations, however, understate the energy cost impacts of a 20 percent cargo preference requirement. If the price increases of all competing energy sources are considered, the cost per gallon could well be on the order of three times higher.

Question. "Also for the record, I would like you to enumerate for us what retaliations, if any, France has suffered as a result of the reservation of a portion of her petroleum imports to French vessels."

Answer. To our knowledge, France has suffered no retaliation due to their oil import requirements. However, this fact cannot be evaluated in a vacuum. First, in 1928 when France required two-thirds of her petroleum requirements to be imported in French vessels, the petroleum producing countries of the world did not influence the world petroleum markets as they do today. In 1928, the international oil trade was dominated by commercial interests, not national interests. Second, France imposed this requirement when the tanker market was in balance without the unprecedented tanker surplus we have today. Finally, France was a minor player in the world petroleum market (see footnote). None of these conditions apply to the United States, the world tanker or petroleum markets today.

Note.—In 1925, France consumed 1.4 percent of the world's liquid fuels. "The History of the British Petroleum Co.," Vol. 1, p. 687, published by the Cambridge Press.

From Senator Stevens

Question. "The sealift capability is not there to meet our needs today, in the short term or in the long term. It is not there. It is not possible to do what some of you gentlemen suggest, and that is call in foreign flag operations because of U.S. ownership in some of those foreign flag operations. They might respond in some instances, but we know what happened in terms of the Arab embargo. They did not respond then.

Answer. There are two questions here. The first is a general question on the availability of the U.S. effective controlled (USEC) fleet, and the second refers to specific actions taken by Liberia during the '73 Yom Kippur war.

We suggest, with respect to the first question, that there is no basis to assume that the USEC fleet would not be available to support the United States in time of war.

USEC vessels have been credited with accommodating the Nation's sealift requirements during the Korean and Vietnamese conflicts. During the Korean conflict, U.S. companies committee both their U.S.-flag and USEC fleets to a voluntary tanker pool, and the USEC vessels made most of the foreign tanker voyages to that combat area. Throughout the Vietnam conflict, USEC tankers were engaged on a commercial basis in the carriage of essential petroleum products to South Vietnam.

During the 12-month period ending March 31, 1967, 61 voyages to or between South Vietnamese ports were made by USEC tankers, delivering over 5.5 million barrels of petroleum products. During the same time, these ships spent an aggregate of 429 days in Vietnam waters as floating storage or in shuttle service transferring petroleum products to and from other tankers, including vessels under military charter—without any failure to perform as directed.

It is true that the U.S. imports huge quantities of strategic commodities in foreign flag bulk cargo vessels. However, this bill would not reduce our vulnerability, as a nation, to a supply cutoff. The risks associated with a cutoff lie not with the transportation of those commodities or the vessel's flag, but rather with our ability to secure both the trade routes and supply sources.

In response to your second question, the action referred to was an executive order by the Liberian government on November 2, 1973 that prohibited the carriage of armament and implements of war to the countries of the Middle East so long as a state of war existed. This order was never implemented because it took effect eight days after the Yom Kippur war ended.

Additionally, the Liberian government confirmed that the executive order did not apply to vessels under approved commitments of effective control. Simply stated, the official position of the Liberian government is, when it approves an effective control agreement in advance, as it has in the case of the USEC fleet, that it has, in effect, ceded its authority to subsequently control the movement of those vessels in the event they are chartered or requisitioned for use by the U.S. government.

We question the assertion that the existing U.S., USEC and allied fleets are not sufficient to meet our sealift requirements. To our knowledge, no objective accounting of national sealift requirements has been made public.

SUMMARY COMMENTS—CENTER FOR NAVAL ANALYSES REPORT ON DEFENSE AND ECONOMIC ASPECTS OF H.R. 1242

A June 1983 report by the Center for Naval Analyses (CNA) purports to analyze the defense and economic aspects of H.R. 1242, the Competitive Shipping and Shipbuilding Act of 1983.[1] The CNA analysis concludes, as does API and others, that H.R. 1242 would impose significant annual costs on the U.S. economy. API has reviewed the economic analysis of this report (principally Section III and Appendix B), especially as it relates to petroleum shipments. Based on that review, we believe CNA has underestimated considerably the adverse economic consequences of H.R. 1242.

H.R. 1242

First, CNA underestimates, by a large factor, the number of tankers that would be built to satisfy the requirements of H.R. 1242 as regards petroleum imports. The CNA analysis underestimates this need partly because it assumes oil imports would be carried in a triangular trade with Europe, rather than in direct movements from production centers to the U.S. In addition, the CNA estimate of the number of new tankers required is too low because CNA fails to allow for likely growth in oil imports. Many prognosticators expect U.S. oil imports to grow as economic growth resumes and U.S. oilfields, including those in Alaska, become older and domestic production falls. For these reasons, the CNA estimate of a need for a dozen tankers is too low by a factor between five and ten.

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[1] Center for Naval Analyses, Defense and Economic Aspects of H.R. 1242 (Competitive Shipping and Shipbuilding Act of 1983), June 1983.

Second, the CNA estimates of foreign versus domestic costs of constructing and operating bulk carriers are questionable. While the documentation of these cost data is brief and hard to follow, it appears that CNA has underestimated the cost disadvantage suffered by operators who build in U.S. shipyards and operate under U.S.-flag. For example, CNA calculated the operating cost of a U.S.-flag OBO of 70Mdwt as only 75 percent greater than the operating cost of a foreign ship of the same size. Yet API, based on existing cost differentials, calculates the operating costs of a similar vessel, a U.S.-flag 80Mdwt tanker, to be 160 percent greater than that of a foreign flag tanker. In addition, based investment cost differentials are underestimated by 30 percent. This assumption, combined with the low estimate of the number of tankers required and different financing packages for U.S. and foreign built ships, forms the bulk of capital the cost understatement.

Other examples include: CNA assumes a 15 percent construction cost reduction from "series construction" of vessels. Even though this target reduction in capital costs is contained in the bill, API questions the reasonableness of the assumption. CNA estimates that only 12 tankers of varying sizes will be built over 15 years with perhaps half a dozen shipyards competing for the work. Under this scenario, it is quite improbable that any one yard, at any one time will get enough of a demand for one size and design of tanker to offer a series discount. CNA also assumed a 24 percent reduction in crew costs, based on an assumed union "giveback," even though this is not contained in the bill. Although API is aware that one unlicensed maritime union has made such a proposal, we are unaware that it has any support from other seagoing labor organizations and question its inclusion in the study. Neither assumption appears justified, and as a result, the cost disadvantage of forced construction and use of U.S. ships is again understated.

These comments pertain to petroleum shipments, but other aspects of the CNA study also are open to question. For example, the CNA study assumes that "grain supply does not respond to price, even in the long run" (p. 3-13), and that "the increases in the cost of transportation caused by H.R. 1242 requirements will have no effect on the U.S. volume of trade or the general trade patterns involved" (p. 3-7). Moreover, CNA assumes requirements on shippers that are not contained in the proposed legislation. These assumptions, and many others in the report need further investigation.

The economic analysis attempted in the CNA study is impressive in its breadth. However, this analysis is dependent on several crucial assumptions about how the proposed legislation, H.R. 1242, would work and how affected parties would react. Some of these assumptions are incorrect and others, in our opinion, require reexamination. Their utilization has biased the estimates of adverse economic consequences of H.R. 1242 downward.

Senator STEVENS. We appreciate the testimony of all of you. I think that you obviously have a severe conflict as far as the legislation is concerned generally, particularly with S. 1624. The committee cannot understand the chamber's position that it would be better to spend money on vessels for the Navy to put in to tie up the docks or get steaming time just to keep them in working condition than it would be to find a way to channel that money into a productive way to reestablish our shipyards and to have, in effect, a U.S.-flag, U.S. owned and operated fleet.

On what basis would you support—could you come to that conclusion? I don't understand that. I am chairman of the Defense Appropriations Committee, too, and I happen to know a little bit about that subject.

Mr. BUSH. I have a little boat over in Annapolis which would not serve the national defense needs any more than most of these dry bulk carriers for which there is no national defense application, but the taxpayer, the American citizen, is going to have to pay one way or another. If that is the case, let us get him a suit of clothes that fits combat needs and not be buying him ill-fitting suits which will be valueless in combat.

Senator **Stevens**. Well, maybe the economy has to shift some of their needs to meet some of our national objectives, too. You know, we take the civil air reserve fleet. Maybe you do not realize it, but we do pay for modifications to civilian airliners, so that they could be taken literally at a moment's notice to effect the airlift that is necessary to meet our Nation's needs.

The alternative to that would be to build those airliners completely to meet military specifications and leave them parked in some airbase. Instead, the civilian aviation community has moved to the middle of the ground, and so did the military, and a substantial portion of our airlift capability is flying around here every day carrying you gentlemen as you conduct your business.

We do not have a comparable position in terms of the sealift, and it is because of this really rigid opposition as far as the industry is concerned that is going to force us into the position of spending, you know, hundreds of times the amount of money you are talking about to build a naval sealift, and we are trying to see if we cannot find some way to channel some of that money into a sealift capability that will meet our national security needs.

I think industry is going to have to realize that, because in the long run industry will pay the bill if we are forced to build them as far as a naval vessel capability is concerned, and the total rigidity of the opposition of the industrial base and the agricultural base to this concept of trying to restore the sealift capability without the direct expenditure of funds in the defense budget, I find rather hard to understand, in view of the experience we have had in the civil aviation area, where there has been complete cooperation, and the cost to the consumer in terms of civil aviation has not been increased. The cost to the taxpayers has been decreased, and our national security has been improved.

Now, I think that there ought to be—I do not think there ought to be a commission. I think there ought to be some national agenda item for industry to determine how to do this, because you are going to pay the taxes if my other committee decides that we have to have the sealift, and a petition is over there, incidentally, for the sealift increase, and I think that it would be a catastrophe for the taxpayer to build an increased sealift and then just tie it up in the dock in the event that there is an emergency.

Mr. **Bush**. I think that misses the fundamental point. The fundamental point is the exorbitant additional cost to the United States. You have a dramatic example of it right out here in the hallway now. You noticed as you walked in there are seven painters out there painting a wall a block long by 16 feet high, a corridor.

I noticed because my wife makes me do a lot of painting at home. They are using little bitty, narrow rollers. Did you notice that out there? It is a 7-incher. I went up to one of the painters, and I said, would you use that at home? He said, no, I use a 9-inch. I said, well, how come you are using the 7-inch? He said, well, that is union rules.

I figure it would take five painters rather than seven to do the same wall if they were using full-size rollers.

Senator **Stevens**. I do not think those are union people out there. They are Government employees.

Mr. **Bush**. That is what he said to me. They are probably contractors, sir.

Senator **Stevens**. Well, I will check that, but as a practical matter, they are the people who paint around here, around the clock, literally. But this has nothing to do with union rules. This has to do with whether industry is going to support the sealift capability in the United States directly through appropriations, or whether we are going to have industry cooperation and work out a way to establish the sealift capability, that it will be an ongoing proposition. We do it.

We do it in other areas of the Government operations in terms of assisting industry. It is an interesting thing as I review some of the other areas where the industrial base has protections from the Federal Government. There does not seem to be a similar opposition to those.

I come from a State that has a 100-percent cargo reservation system. We live under the Jones Act.

Mr. **Bush**. And your prices are twice as high as any other State in the United States.

Senator **Stevens**. That may be, but we are producing one-seventh of the Nation's oil, and we are producing a substantial portion, 45 percent of the Nation's seafood now, and 22 percent of the timber is coming from my State. We do not like the Jones Act completely, but we understand where it is coming from, and the net result is that the shipyards are still alive, primarily because of Alaska's resources, but that cannot go on forever as someone mentioned here.

Yes, sir.

Mr. **Banks**. Mr. Chairman, may I speak to your point on that? The API has long taken the position that we are not opposing the construction and operation of ships under the U.S. flag that are determined as being needed for national security.

There has never been such a determination made, although we have urged doing so repeatedly—there have been blue ribbon panels set up that have produced nothing to define what the need is. Once that is defined, then whatever action in the wisdom that Congress takes to properly build those vessels and get them on budget, so that American taxpayers can see them, would be supported, I can assure you.

But to instead legislate cargo preference that would produce vessels that are not needed, that would cost much more than the construction of those vessels that are needed, whenever and whatever they are determined to be just does not make economic sense for this country. We cannot squander our money—our taxpayers' money and consumers' money that way.

We fully realize that whatever is needed for defense should be spent. But it should be spent on budget so the American taxpayer can see it. It should not be hidden or cloaked under a broad cargo preference requirement for which we would pay several times what would be required otherwise.

Senator **Stevens**. Well, I cannot quite agree.

We are going to have to go vote, and Senator Trible will continue the hearing when we return.

I will tell you, if the philosophy that you gentlemen express had been carried through in the tax law, we would not have tax incentives. We would not have the investment tax credit. We would not have depreciation concepts in our tax law. If you really look at what we are saying, we are trying to use the incentives of our system to create a U.S. fleet once again.

I do not see the Russian vessels, the Russian—we do see a lot of Russian vessels coming in. Obviously, the Russian Government has made a decision, and the Japanese Government has made a decision, and the Korean Government has made a decision that a sealift capability is in the national interest. We have not made that decision yet, and yet we now face problems of national security which we cannot go into here which are immense in terms of a sealift problem.

The sealift capability is not there to meet our needs today, in the short term or in the long term. It is not there. It is not possible to do what some of you gentlemen suggest, and that is, call in those foreign-flag operations because of U.S. ownership in some of those foreign-flag operations. They might respond in some instances, but we know what happened in terms of the Arab embargo. They did not respond then.

And I really think that we have got to attack this problem. I believe we ought to have your help, and not your total opposition, because the intractable opposition that has been expressed today makes it almost impossible for us to find a solution to the problem without going to the direct appropriation of moneys for sealift, and believe me, if that is necessary, we will do it. We will have to do it.

Mr. **Banks**. Mr. Chairman, I know you have to leave, so I would ask permission to respond in writing to your comments, particularly about the Arab embargo and that part of it.

Senator **Stevens**. We would be happy to do that. Senator Trible will be right back. I am sorry. I did not expect this one to go this long, and I have another meeting at 12. We stand in recess. There is a vote on the war powers.

[Recess.]

Senator **Trible** [presiding]. Ladies and gentlemen, we are going to begin again our session here today. I would invite those witnesses to return to the table. I apologize for the interruption. The Senators were responding, as you know, to a rollcall vote on a motion by the majority leader to table an amendment of the minority leader, Mr. Byrd, that would make the War Powers Act apply to the situation in Lebanon that was tabled, 55 to 45, which essentially suggests that the compromise will be adopted by the same margin later in the day.

Let us resume our discussion of the innovative proposals now before this committee to set aside a portion of oceangoing cargoes for American ships. Let me focus on three areas, if I might. First, there is a question of cost consequences. Two of you gentlemen have propounded cost figures in your testimony here today. First, you, sir, representing the chamber of commerce. Could you tell me your name?

Mr. **Bush**. John Bush, Arlington, Va., Senator.

Senator **Trible**. Mr. Bush, it is always great to see——

Mr. **Bush**. I was one of your constituent workers.

Senator **Trible** [continuing]. A constituent and supporter.

Mr. Bush, in your testimony, I believe that you advanced the figure of $100 billion in additional shipping costs that would flow from this legislation. Can you share with us today or provide for the record the cost computation on which that figure is based?

Mr. **Bush**. Yes, Senator, I would be happy to.

Senator **Trible**. I would like to know the analysis on which you based that judgment.

Now, Mr. Banks, I believe, Mr. Banks, in your testimony, you suggested that the legislation would add $66 billion a year in costs. Could you share with us your analysis?

Mr. **Banks**. That is in the record. It has already been submitted.

Senator **Trible**. All right. Why do you not share it with us then orally? Tell us how you arrived at that figure.

Mr. **Banks**. If you are comparing the two analyses, the two statements here, they are not comparable. We are only talking about the cost of petroleum products and the total energy costs, so it is apples and oranges.

Senator **Trible**. I was not suggesting that they were. I recognize that you are talking about different kinds of costs. Share with us your methodology and how you arrived at that $66 billion figure.

Mr. **Banks**. All right. The methodology involves taking the cost of the increased transportation by virtue of cargo preference legislation, running it out and realizing that the incremental cost would affect the total cost of transportation, it would affect all the oil that is brought in, not just the 20 percent, because the rest of the market will rise. That brings the whole cost up to the total figure.

Senator **Trible**. Is this part of your statement?

Mr. **Banks**. Yes.

Senator **Trible**. You summarized your statement. We appreciate your doing that. And you have submitted for the record a more detailed statement, estimated incremental cost, and are these figures the product of——

Mr. **Banks**. I hesitate to go through eight, or nine pages here with you, but they are all here, exactly how every number is derived and then summarized.

Senator **Trible**. What troubles me is that those cost figures are so out of line with the other studies before this committee. The Center for Naval Analysis, a dispassionate party, I would suggest, conducted a study of the cost consequences of H.R. 1242 and determined that oil prices would increase 0.54 percent. Now, that bill, H.R. 1242, would impose higher costs than the legislation that I have introduced here, because it will require only a 15-percent savings on the part of the maritime industry, and would not provide for a tax credit to offset a share of the possible cost differential.

The SIU presented a study that suggests that under the same House bill, H.R. 1242, there would be a 0.6-percent increase. So those two studies conducted by entirely different entities arrived at virtually the same result. What that would mean is a 2-cent-per-gallon increase, and that is about the same conclusion reached by the GAO in a study of similar legislation in 1977.

I guess the question we have to answer here is, assuming the validity of those figures, and those are three studies done by three very reliable kinds of people, whether that is too great a price to pay or not, but those results certainly seem at great variance with the figures you have propounded here today.

Mr. Banks. They certainly are, and we have been analyzing and are completing our study of the CNA figures. We will be happy to submit for the record our comparison of this so you can see where we differ. There are a number of places. The CNA has consistently underestimated the U.S.- and foreign-flag tanker cost differentials that have been referred to many times, both in operating and the capital costs.

They have discounted U.S. crew costs 24 percent, even though there is no basis in either the House or the Senate bill, and they are overly generous in their assumptions of different financing costs of U.S. and foreign vessels. The CNA uses an unequal debt equity split. They have used financing charges and leverage lease tax arrangements with which we cannot agree in any way.

Senator Trible. Well, what I would invite you to do is to detail those differences of opinion for the record. We would like to see a detailed statement of your analysis as well, and we would invite you to respond to the cost estimates put forward by both the SIU and CNA.

Mr. Cole. In addition, Mr. Chairman, API personnel would be happy to sit with your staff at the time of looking at these analyses.

Senator Trible. Good. We appreciate that, and we want to fairly and correctly assess those costs, and to that end, we will work together.

Mr. Cole. There are some severe differences of magnitude of the benefits to be derived from this legislation. The CNA study shows only 15 tankers being built over the life of the bill, whereas API estimates it will be 80 tankers built in that period if the bill operates as it is proposed to, most of which, of course, will be VLCC's, so the magnitude between the conclusions of the two is dependent significantly upon the volume of activity generated.

The CNA bill, 15 ships is not going to give that much employment to our distressed shipbuilding industry. So right there, they have a difference in basic premise. They have got U.S. crew costs, and both Mr. Banks and I were on U.S.-flag vessels. I have some CDS, ODS vessels. We have foreign-flag vessels. And I cannot recognize the figures they are using for U.S. wage costs. They show $1.7 million a year for U.S.-flag crew, and our bill is $3.2 million a year. Even the ODS vessels get $2 million a year from the Federal Government to be competitive with foreign-flag wage costs. And I am running CDS, ODS ships. I have five of them on charter, the NASCO ships, 91,000 tons, and we have lost $10 million on those ships in world trade in the first 8 months of this year.

Senator Trible. Well, we all know that a good econometric model can tell you anything that you want.

Mr. Cole. We would be happy, sir, to review all of these studies with you.

Senator Trible. What we would like to do is try to fairly assess the cost, and to the extent that you will assist us in that manner, it would be quite helpful.

Mr. Cole. Understood.

Senator TRIBLE. Now, let me move on. Just two other brief points, and then we will move on to the next panel and let you all return to your more important responsibilities. One point that has been made by several of the witnesses on this panel is that this kind of legislation would bring a retaliation in the marketplace, and that it runs counter to our ideas of free trade.

My question would be, gentlemen, what free trade in the maritime marketplace? Today there are 45 nations that have cargo preference laws. Substantial maritime presence is represented by the demand economies of the communist nations. The UNCTAD code for liners sets aside substantial share of cargo, and has been generally supported.

And in terms of energy producing countries, a substantial number of energy producers set aside cargoes for their own vessels, Algeria, Indonesia, Kuwait, Mexico, Saudi Arabia, Venezuela, and Zaire. I am guessing that some of those are energy producers. I may be wrong. But in the main, they surely are, and they all set aside a substantial share of their cargoes.

So, the truth is that we do not face a free trade situation. And a substantial share of cargoes are being set aside, and that is the trend of the day. That is the trend. Now, you might argue that that is not the way that we should go, and that we should not encourage that movement forward, but it is a reality, and I think we have to deal with it.

Mr. COLE. Mr. Chairman, may I respond to that?

Senator TRIBLE. Please. And for the record, would you state your name?

Mr. COLE. Yes; I am James A. Cole, Jr. I am vice president of the marine department of Texaco, Inc.

The few countries which you mentioned do not truly require, nor in actual fact are they maintaining tanker fleets of their own for export of their locally produced oil.

Mr. Banks and I, between us, lift about 300,000 barrels a day, or some 10 million barrels a month out of Indonesia, and that is all done in foreign-flag vessels of our choice. We lift cargoes out of Algeria. We are not required to lift any cargoes in Algerian-flag ships. In fact, Kuwait has recently sold four ULCC's of their own, which they have sent to the scrapyard.

We, also in Texaco, and I think Mr. Banks does, have participation with Saudi interests, whereby we have Saudi partners who run Saudi flagships, but we run them at commercial-market rates, with no preference shown for our utilization of our vessels for any Saudi cargoes. They do not impose a requirement on anyone lifting in Saudi Arabia, nor do any of the other major producing countries.

There are some importing countries that have been cited in the past hearings that have a nominal cargo preference system, but they are very insignificant in total world petroleum movements.

Mr. BANKS. One other country that you mentioned was Venezuela. We import Venezuelan oil, and we import it in our own vessels, not Venezuelan-flag vessels.

Senator TRIBLE. Those are U.S.-flag vessels?

Mr. BANKS. No; they are foreign-flag vessels, but not Venezuelan flag. They are free-flag vessels.

Mr. **Cole**. What these countries are finding out, Mr. Chairman, is that the shipping business is not profitable, period, in the world tanker transportation system today, involving in shipping, and, I think, most of the Arab gulf countries have found this. They talked initially of establishing cargo-preference requirements. They have never implemented those mandated requirements, and in fact those few cases where they did acquire ships and capacity, they have been letting those ships go and running down their fleets. They do not think that shipping is the place for their investments to be.

Senator **Trible**. And you obviously do not either?

Mr. **Cole**. Shipping today even at foreign levels is not profitable. Certainly, when you get into the American side of the situation for international trade, it is simply noncompetitive.

Senator **Trible**. What about the hostilities? Someone has suggested here today that there are substantial numbers of ships that are foreign flag, flags of convenience, and that they would be readily available at time of national requirement. I find that very hard to believe, gentlemen, that in a shooting scenario these kinds of ships would be available.

During World War II, we lost half of our tonnage and the Germans although a substantial adversary surely do not represent the maritime threat that the Soviet Union represents. That perhaps is a worst case, but when you are sitting where we sit you have to prepare for worst case scenarios, and we have to assume the worst and prepare for it in hopes that we can avoid that result.

In a Warsaw contingency or any number of contingencies it is very likely that U.S. ships necessary to carry cargoes, men, material to supply and resupply our forces will be fired at and quite effectively. Are you suggesting to me that ships that are crewed by foreign nationals, and that fly foreign flags are going to be available for that process?

Mr. **Banks**. Absolutely. That is what happened in the Korean war and that is what happened in the Vietnamese war. A very significant portion of the movements made during the Korean war and the Vietnamese war were made in U.S. effective control vessels.

Senator **Trible**. It is easy for you to glibly make that assertion, but I cannot believe any responsible policymaker could believe that or act on that assumption. In Korea and Vietnam obviously we controlled the air over the waters plied by these ships, and the risk is not what it would be in so many different kinds of contingencies.

During the 1973 Yom Kippur war, Liberia, as you will recall, refused to let their ships be used for simple supply. Now, it is true that we brought power to bear and reversed that decision, but that is just unbelievable in my judgment. In this great country you have a right to assert that view.

Mr. **Banks**. Mr. Chairman, I think you are referring to an executive order by the Liberian Government on November 2, 1973, that prohibited the carriage of armament and implements of war to the countries of the Middle East so long as a state of war existed. That actually was never implemented because it went in 8 days after the Yom Kippur war ended.

Additionally, the Liberian Government confirmed that the executive order that they put out did not apply to vessels under approved commitments of effective control. Simply stated, the official position of the Liberian Government is that when it approves in advance an effective control agreement, as it has in the case of the U.S. fleet, it is in effect ceding its authority subsequently to control a movement of those vessels in the event they are chartered or requisitioned or used by the U.S. Government.

Senator **Trible**. Mr. Banks, when you submit your cost analysis, I would like you to specifically quantify for us the estimated cents per gallon increase for gasoline at the pump.

Mr. **Banks**. I can tell you it is about 25 cents a gallon.

Senator **Trible**. Those figures you are just pulling out of the air.

Mr. **Banks**. No; I am not.

Senator **Trible**. We welcome them. We will look at them with great interest, Mr. Banks.

Also for the record, I would like you to enumerate for us what retaliation, if any, France has suffered as a result of the reservation of a portion of her petroleum imports to French vessels. Again, that is applicable to our question of free trade and retaliation that might spring from this kind of initiative.

Someone represents the gypsum industry. That is an interesting point that you raised about the peculiar nature of your requirement and how those ships would not lend themselves to defense requirements.

The legislation, as drafted, would give the Secretary discretion to respond to that kind of situation. That kind of discretion might cause you unease, but it is there and is there for the purpose of responding to the kinds of peculiar instances that you suggested where ships designed for a certain industry or a certain requirement would not have broader application and, therefore, would not serve any useful national purpose beyond the transit of that particular commodity.

Anyway you have helped us frame the issues, gentlemen. We appreciate your being here today. We would like to pursue the cost anylsis with you as this legislation is shaped.

Mr. **Ward**. Senator, would you permit me representing the Gypsum Association to give a brief response to your latest comment?

Senator **Trible**. Absolutely.

Mr. **Ward**. My name is Russell Ward. The legislation, as I read it, gives the Secretary the power to exempt anyone for due cause from the requirements of the bill for 1 year. We are faced with a problem similar to the same problem you have: You cannot plan the future of a business any more than you can plan the future of this Nation with only 1 year's assurance that you will be exempted from this requirement.

If you build a ship you have made a 25-year commitment.

Senator **Trible**. Good point. I can well understand how 1 year would not permit you to plan your business activities, and we will keep that in mind. We appreciate your being here today.

We have a final panel. Well, I guess we have a panel and then a final witness. We would invite the representatives of the McCall Coal Co. on behalf of the National Coal Association, the vice president and director of transportation and distribution on behalf of the Forest Industries Council.

Gentlemen, welcome. If you would be kind enough to identify yourself, your full statement will be made a part of the record. You may read that statement or you may summarize your statement.

STATEMENTS OF ROBERT HEINE, ON BEHALF OF THE FOREST INDUSTRIES COUNCIL; AND ALBERT W. NEMENZ, ON BEHALF OF THE NATIONAL COAL ASSOCIATION, ACCOMPANIED BY CONNIE HOLMES, VICE PRESIDENT, NATIONAL COAL ASSOCIATION

Mr. HEINE. My name is Robert E. Heine. I represent here today the Forest Industries Council, and I am appearing to offer our views on the issue of cargo preference with specific reference to S. 1624, the Merchant Marine Revitalization Act of 1983.

I have submitted separately a statement, with attached appendixes, which I understand will be made part of the official record of these hearings. The Forest Industry Council is a policy coordinating body composed of organizations with nationwide interest in the growing processing, production, and marketing of wood and wood fiber forest products, a very substantial portion of which moves by ocean transportation for sale in foreign markets.

We are pleased to have the opportunity to appear here today. Further, Mr. Chairman, I commend you and the other members of the subcommittee for holding these hearings.

They provide a needed forum to air all points of view on the viability of cargo preference policy and in achieving an array of public policy objectives.

S. 1624, to which all product segments of our industry are opposed in principle, would increase our ocean transportation costs and as a result would undermine our ability to compete effectively with foreign producers.

If American exporters are compelled to use higher cost U.S. flag transportation services while Australian, Canadian, Russian, Scandinavian, and other foreign competitors may use ships of any registry, marketability of American forest products will be significantly reduced. In appendix C attached to my written statement, we note that ocean transportation rates account for 15 to 35 percent of the delivered cost of wood chips and logs, both bulk products by definition.

In addition, Mr. Chairman, we will be submitting for the record an expanded analysis of such cargo preference policies that demonstrates that the debilitating impact those requirements would have on a broader range of forest products. This analysis will be submitted since it reflects upon references contained in the June 1983 cargo preference study by the Center for Naval Analyses.

Our analyses clearly indicate that a significant increase in freight rates arising from the use of higher cost American vessels would have substantial effects upon the delivered price of forest products in foreign markets. By way of specific example, without the application of special Federal subsidies, the annual operating cost of a U.S.-flag chip carrier operating between the Pacific Northwest and Japan would be $101.34 per ton of product carried.

In contrast, the operating cost of a corresponding foreign flag vessel on the same route is $44.40 per ton carried. A differential of this magnitude could have a drastic effect on our ability to compete.

Clearly a 20-percent cut in ship construction and operating costs as well as the tax incentives contained in S. 1624 would not sufficiently reduce the cost differential for shippers. In view of the fact that the U.S. forest price industry is cost competitive worldwide, the export market offers a tremendous growth potential.

During 1982 the forest products industry exported 36 million tons at a value of $7.1 billion, generally in highly specialized, open-hatch bulk carriers. The U.S. forest products industry has been making new capital investments averaging about $8 billion per year in order to make itself cost competitive in both U.S. and foreign markets.

According to studies by the Commerce Department, each $1 billion in exports created 25,000 new jobs in 1982. However, legislation such as S. 1624 which restricts the ability of U.S. companies to keep delivered costs, including transportation costs, competitive with foreign suppliers will limit investment.

In other words, this legislative effort to provide increased jobs to the maritime industry through cargo preference requirements on shipments of bulk cargo will actually lead to reduced markets overseas and reduced employment in the U.S. forest products industry. S. 1624 would establish a scheme of "guideline rates" under which a shipper would be freed of the quota requirements only if sufficient U.S.-flag vessels were not available at rates at or below the level of the guideline rates.

This guideline rate approach will produce, in our view, a bureaucratic nightmare. Not only will a vast new subagency arise within the Department of Transportation but unavoidably there will be all kinds of confusion, uncertainty, disputes, and litigation in implementing such so-called guideline rates.

On the issue of tax credits, the 10-percent tax credit provided in title II would still leave the members of our industry confronted with a heavy net transportation disadvantage. Title III does not provide any direct relief to shippers.

As to amendment 1516, the ability under certain circumstances to use foreign-built ships documented in the United States and manned by U.S. crews makes a useful but severely limited contribution.

Forest Industries Council is anxious to work cooperatively with Congress to develop initiatives which will strengthen the U.S. maritime industry while at the same time not placing American producers in a disadvantageous competitive position in seeking foreign markets.

We believe S. 1624 will actually prove self-defeating. Our industry will sustain serious losses in the ocean trade while at the same time the added business for the U.S. maritime industry will ultimately not be realized.

I would be pleased to answer any questions.

[The statement follows:]

STATEMENT OF ROBERT E. HEINE, VICE PRESIDENT AND DIRECTOR OF TRANSPORTATION AND DISTRIBUTION. ITT RAYONIER INC., APPEARING ON BEHALF OF FOREST INDUSTRIES COUNCIL

Mr. Chairman and members of the subcommittee, my name is Robert E. Heine. I am vice president and director of transportation and distribution, ITT Rayonier Inc. I am appearing today on behalf of the Forest Industries Council [FIC] which here submits to the Subcommittee its views on S. 1624, the Merchant Marine Revitalization Act of 1983. The council is a policy-coordinating body located in Washington, D.C., composed of organizations with nationwide interests in the growing, processing, production, and marketing of wood and wood fiber forest products.

The producing member organizations of the FIC all relate to one or more forest products. They are the American Paper Institute, American Plywood Association, American Pulpwood Association, National Forest Products Association, Southern Forest Products Association, and Western Wood Products Association. A very substantial portion of our industry's products moves via ocean transportation for sale in foreign markets.

By way of explanation, the term "forest products" includes fiber raw material from the forest—logs, pulpwood, chips, ground material for fuel. It also includes solid wood materials—lumber, plywood, particleboard, and the like. And it includes products made from wood fiber, such as pulp, paper, paperboard, cartons, shipping containers, and other items.

Our testimony today focuses on S. 1624, including amendment No. 1516, since this legislation, different from the other bills which are the subject of this hearing, appears to impact overseas shipments of products of our industry. Specifically S. 1624 as written appears to embrace our shipments of wood chips, logs, flitches, and cants. The bill—to which all product segments of our industry are opposed in principal—would increase ocean transportation costs and would thereby undermine our ability to compete effectively with foreign producers. Moreover, it can be anticipated that cargo reservation in this country would trigger a proliferation of similar requirements by other countries.

The movement of goods in American vessels is much costlier than the movement of goods in foreign-flag vessels and as a consequence very little has moved on U.S.-flag ships. If American exporters are compelled to use higher-cost U.S.-flag transportation services while their Australian, Canadian, Russian, Scandinavian, and other foreign competitors may use ships of any registry, the marketability of American exports of wood chips, logs, flitches, and cants in countries abroad will be significantly reduced. And if the price of American products rose well above that of foreign products, their competitive position would clearly be undermined.

Our concerns about the increasing costs of ocean transportation over the long term through cargo preference requirements—and the consequent damage to the export market for American forest products—are more than theoretical. Economic studies undertaken by us bear out these concerns in specific detail. Included with this statement is a statistical study on the higher costs of shipping bulk cargo in U.S.-flag vessels.

This economic study, which is attached hereto as appendix C, notes that ocean transportation rates account for 15 to 35 percent of the delivered price of wood chips and logs. A significant increase in freight rates arising from the use of higher-cost American vessels would clearly have substantial effects upon the delivered price of these products in foreign markets.

The tendency of cargo sharing quotas to inflate the cost of ocean transportation via U.S. vessels is clearly illustrated by the rate structure resulting from the Cargo Preference Act of 1954 which requires that 50 percent of Government-generated cargoes must be transported in American-flag vessels. Appendix C confirms that the captive market for U.S. vessels created by this law has given rise to U.S.-flag rates ranging from 30 to 273 percent higher than comparable foreign rates.

Even apart from the inflating effects of artificial quota requirements, U.S.-flag ocean freight rates are appreciably higher than those charged by comparable foreign-flag carriers.

This results in large measure from the fact that U.S.-flag ships are substantially more expensive to construct and to operate than foreign vessels. These higher building, repair and crew costs are illustrated in our economic study.

Without the application of special Federal subsidies, the annual operating costs of a U.S.-flag vessel operating between the Pacific Northwest and Japan would be $101.34 per ton of product carried. In contrast, the operating cost of a corresponding foreign-flag vessel on the same route is $44.40 per ton carried. a differential of this magnitude could have drastic effects on our ability to compete. Clearly, a 20 percent cut in ship construction and operating costs, as contained in S. 1624, would not sufficiently reduce the differential.

Even with the application of federal subsidies, the annual operating costs of U.S.-flag ships render them non-competitive with foreign vessels. Appendix C shows the cost of a U.S.-flag ship receiving a Federal operating differential subsidy. On such a vessel, the total cost is $78.53 per ton carried—still higher than the $44.40 figure for a foreign vessel. Even with the addition of a Federal construction differential subsidy, costs decrease only to a level of $54.26 per ton carried.

Federal subsidies necessary to bring the costs of U.S.-flag vessels even remotely within the range of foreign-flag ships represent, of course, an enormous outlay of Federal funds and therefore a serious burden on the American taxpayer.

An additional concern that we have on the bill impinges on service as well as economics. Most export shipments of forest products move in specialized, open-hatch vessels which rely upon back-hauls of dry bulk cargoes returning to the United States or Canada. Outbound freight rates are based on the ability of the carrier to obtain dry bulk cargo on the return voyages. Canadian shippers, with whom we are in competition, would benefit from increased availability of these specialized ships.

During 1982 the forest products industry exported 36 million tons at a value of $7.1 billion. The U.S. forest products industry has been making new capital investments averaging about $8 billion a year in order to make itself cost-competitive in both United States companies to keep delivered costs, including transportation costs, competitive with foreign supplies will limit investment. Fewer job opportunities will result not only from the lower productive capacity in the industry but also from reduced requirements from suppliers.

A recent study by the Commerce Department, which is based on census data for 1980 and 1981, estimates that each $1 billion in exports created 25,000 new jobs in 1982. It is clear that the legislative effort to provide increased jobs for the maritime industry through cargo preference requirements on shipments of bulk cargo will not only lead to reduced markets overseas but to reduced employment in such industries as the forest products industry.

THE ADDED TRANSPORTATION COSTS STEMMING FROM THE COMPULSORY USE OF U.S.-FLAG VESSELS WOULD SIGNIFICANTLY DECREASE THE MARKETABILITY OF AMERICAN TIMBER PRODUCT EXPORTS ABROAD

Since 1970, the volume of wood chips exported annually has about doubled and the volume of logs exported has increased by half. Data on cant and flitch export volumes are not available but exports are known to be increasing.

With regard to modes of transportation, there is an imbalance in the import and export trade of these products. Not only are the volumes exported many times those imported, but most of the imports are over land from Canada while most of the exports are off shore. This means any increase in ocean freight costs would affect U.S. exporters in their competition with other export nations without giving Canada higher costs when it exports to the U.S.

The subcommittee should consider what happened to cargo lumber trade as a result of the Jones Act (Intercoastal Shipping Act, 47 Stat. 1425). As shown in appendix B, over the last 60 years the share of waterborne lumber from the U.S. Pacific coast disappeared absolutely, while the share from British Columbia increased from 2 to 100 percent. Today there are no ships carrying lumber from U.S. west coast to east coast ports, in large part because U.S. lumber mills can not compete with foreign mills that enjoy lower transportation costs. The Jones Act has protected the trade out of existence. In sharp contrast, U.S. mills are now enjoying a brisk and growing export trade from the Pacific Coast because they are not required to use U.S.-flag ships for their export trade.

The message is clear. Any change in transportation policy cannot disregard their impact on competitive balances. The cargo trade must be considered. Unless these changes enhance cargo trade or at least do not damage it, they cannot be justified. The Jones Act experience cannot be ignored.

Many countries of the world have forest resources. The United States has no monopoly. The increase in ocean freight costs that would result from S. 1624 would shift world competitive balances and reduce the volume of U.S. timber products exported.

THE PROPOSED SYSTEM OF GUIDELINE RATES WOULD CREATE A BUREAUCRATIC NIGHTMARE OF OCEAN FREIGHT RATE REGULATION

S. 1624 would establish a scheme of "guideline rates." Under this system, a shipper could be freed of the quota requirements only if a sufficient number of U.S.-flag vessels were not available at rates at or below the level of the guideline rates. This proposal may have a superficial, theoretical appeal, but it amounts in fact to the creation of an enormous and complex new regulatory apparatus. This appears to be inconsistent with the Senate's passage of maritime reform legislation under S. 47.

This is not the time for a vast new subagency to arise within the Department of Transportation [DOT]. The guiding policy of this Congress and this administration is surely not to increase the scope of intrusive Federal regulation. Many of the existing federal agencies are only now realizing the extent to which excessive regulation can disrupt the efficient functioning of major sectors of the economy.

The complexity of the guideline rates program is daunting indeed. The Secretary of Transportation is directed to estimate the cost of operating each of the various classes of actual and potential U.S.-flag ships in the overseas bulk trade. This apparatus of the regulation of ocean freight rates would be a bureaucratic nightmare. All sorts of complicated determinations are to be made by the Secretary of Transportation, with no assurance that they can be reached with any real accuracy and objectivity. Many of the standards intended to determine the level of guideline rates are hopelessly vague. How is one to ascertain what constitutes a "reasonable profit"? How much real guidance does the bill give in calling for the establishment of a "fair and reasonable rate"? In what precise way are "international charter market indices" to be "adjusted" to "reflect" the Secretary of Transportation's estimates of construction and operating costs?

Endless delay and legal expense could result from litigation challenging the reasonableness of guideline rates promulgated by DOT. A whole system of adversary proceedings could evolve, wherein U.S. shipping lines would seek the highest possible level of guideline rates while exporters and importers would be compelled to attack rates as unjustifiably high. It is difficult enough to bring existing federal regulation under control; there is no excuse for creating a whole new sphere of it.

TITLE II, TITLE III AND AMENDMENT NO. 1516

We are mindful of the provisions of title II, the United States-Flag Ship Use Incentive Tax Act, and title III, Shipyard Facilities Capital Construction Fund Act of 1983. We also note the proposal in amendment No. 1516 allowing one-half of the bulk cargo reserved to U.S.-flag ships to be carried on foreign built ships documented in the United States and manned by U.S. crews.

It is commendable that these proposals recognize the problems caused by mandatory cargo preference. However, they fall far short of solving the difficulties I have outlined in our testimony. The injury to our industry would continue to be substantial and serious.

As to the 10-percent tax credit provided in title II, if, for example, the added cost to the shipper is $56.94, he is still forced to face a net burden of $51.25—so that, however well intentioned the proposal, the problems still persist. In highly competitive markets this kind of handicap will be very injurious.

One thing must be noted about title III—it does not provide direct relief to the shippers. As to amendment No. 116, the ability to use foreign built ships documented in the U.S. and manned by U.S. crews makes a useful but limited contribution. While it would clearly help mitigate the transitional impact of S. 1624, it does not address the fundamental problem of the effect S. 1624 will have over the long-term on bulk cargo shipping costs for American importers and exporters.

CONCLUSION

We emphasize that we share a mutual concern about this country's merchant marine. As shippers, we believe that a healthy American maritime industry, able to compete effectively with foreign carriers, would be a tremendous benefit for all of us. For this reason, FIC actively supports legislation to reform maritime regulatory procedures. In addition, FIC is anxious to work cooperatively with Congress to develop initiatives that will serve to strengthen the troubled maritime industry, while at the same time not placing American producers in a disadvantageous competitive position in seeking foreign markets. Unlike the quota rules of S. 1624, these reforms should make American shipping more cost-competitive with foreign lines without crippling the American export trade on which the U.S. merchant marine depends for its revenues and financial health.

APPENDIX B.—LUMBER SHIPMENTS BY WATER FROM PACIFIC COAST TO U.S. ATLANTIC COAST

Year	From Washington, Oregon, and Northern California		From British Columbia		Total, million board feet
	Million board feet	Percent	Million board feet	Percent	
1920	49	98	1	2	50
1930	1,342	82	208	18	1,550
1940	1,086	96	40	4	1,126
1950	1,055	59	731	41	1,786
1960	849	55	695	45	1,544
1970	253	22	896	78	1,149
1982	0	0	790	100	790

Source: Pacific Inspection Lumber Bureau.

APPENDIX C.—INTERIM REPORT ON CARGO PREFERENCE, PREPARED FOR FOREST INDUSTRIES COUNCIL BY AMERICAN PAPER INSTITUTE, ECONOMICS DEPARTMENT

SUMMARY

Our analysis of U.S.-flag cargo preference proposals indicates that:

Shifting to U.S.-flag vessels would add substantially to the forest products industry's transportation costs for export shipments. At present, almost all of the export shipments move in foreign-flag vessels of special configuration operated by proprietary fleets or by contract carriers not engaged in regularly scheduled service (see exhibit I). Rates for these services are established in a highly competitive short-term contract market.

The forest products industry's exports of wood chips, logs, flitches and cants are shipped as bulk cargoes without mark or count. These cargoes require special handling and are best facilitated by so-called chip carrier and logger vessels. No vessels of this type exist in the U.S.-flag fleet, hence the introduction of cargo preference would create an artificial imbalance between the demand and supply of these special types of vessels. Under these conditions, U.S. shipowners would certainly charge a premium rate for transportation services. This would increase the delivered prices of U.S. forest products and reduce U.S. market share in foreign markets. For chips and logs, the primary movement of exports is from the Pacific Northwest to Japan. Typical 1981 ocean freight rates from the Pacific Northwest to Japan were $48 per ton for wood chips and $37 per ton for logs. These costs account for 15 to 35 percent of the delivered prices of these products. Consequently, any movement in transportation costs up or down would have a significant effect upon export volumes.

U.S.-flag vessels are necessarily dependent on direct federal subsidies designed to offset the higher costs of U.S.-constructed and U.S.-manned vessels. Our analysis shows that without subsidies the operating cost of a U.S.-flag chip carrier vessel operating between the Pacific Northwest and Japan would be $101.34 per ton of product carried (see scenario A). In contrast, the cost of a foreign-flag vessel sailing the same route is only $44.40 per ton carried (see scenario E). On a cost-pass-through basis alone, this would increase the cost of shipping a ton of wood chips to Japan by 119 percent. Our analysis is based on the capital and operating costs of new chip carrier-type vessels which are specially designed and constructed to carry forest products exports well into the 1990's.

Even with subsides, U.S.-constructed and U.S.-manned vessels are not competitive. Our analysis shows that the cost of a U.S.-flag vessel receiving operating subsidy is $78.53 per ton carried (see Scenario B). The cost of a U.S.-flag vessel receiving both construction and opeating subsidies is $54.26 per ton carried (see Scenario C). A vessel constructed in a foreign shipyard and opeating under the U.S. flag with no operating subsidy, has cost of $67.02 per ton carried (see Scenario F). The only type of U.S.-flag vessel which is competitive is a foreign-built ship eligible for operating subsidy under current temporary authority of the 1981 Reconciliation Act. The operating cost of this type of vessel is $47.80 per ton carried (see Scenario D).

Cost differentials are only a part of the story. The total transportation cost to the industry would be affected by:

(a) the creation of an artificial demand for U.S.-flag vessels that will exceed supply for a considerable period of time. This could result in rate increases that exceed cost increases by a considerable margin. At the very least, a long phase-in period would be required to insure an adequate supply of U.S.-flag vessels suitable for servicing the forest products trade.

(b) the inefficiencies resulting from the inability of U.S. shippers to take advantage of the cost benefits obtained from least-cost routing. Cargo preference would prevent shippers from utilizing the benefits inherent in scheduling shipments without regard to the availability of a specific type of U.S.-flag ship.

(c) the excess capacity in foreign-flag ships resulting from the build-up of U.S. capacity could provide a significant transportation cost advantage to foreign producers.

The forest products industry has taken note of the differences in the charter rates for ships operating in open access, free markets as compared to the distored rates for ships operating in a captive market subject to cargo preference. The prohibitive costs of cargo preference are exposed by examining historical rates under the Cargo Preference Act of 1954, which legally requires that at least 50 percent of Government generated cargoes be carried in U.S.-flag vessels. In the case of foreign-aid grain shipments, rates for U.S.-flag vessels ranged in extreme cases between 253 and 317 percent of the comparable foreign rates. Even after adjusting for the higher capital and operating costs of the U.S. ships involved, an extra profit averaging about 34 percent of the U.S. costs was extracted by U.S.-flag ships in these captive market trades (see Exhibit III). The U.S. Office of Management and Budget estimates that the additional costs to the Federal Government of current cargo preference programs is $400 to $500 million a year.

The U.S. forest products industry has been making significant investments averaging about $8 billion a year in order to make itself cost competitive in both United States and foreign markets. Its productivity performance ranks among the highest in the manufacturing sector. Its export potential has never been better. An arbitrarily legislated increase in transportation costs for the U.S. industry would undo all of the benefits and efficiencies derived to date.

EXHIBIT I.—U.S. FOREST PRODUCTS INDUSTRY WATERBORNE EXPORTS AND IMPORTS CARRIED IN LINER AND NONLINER U.S.-FLAG SHIPS (1981)

	(Thousands of long tons)			Value (dollars in millions)		
	Total	U.S. flag	U.S. percentage	Total	U.S. flag	U.S. percentage
Exports of wood, cork, and lumber:						
Nonliner service	15,696	21	0.1	1,510	5	0.3
Liner service	1,440	404	28.0	536	137	26.0
Imports of wood, cork, and lumber:						
Nonliner service	2,202	178	8.1	298	28	9.4
Liner service						

Source: Office of Trade Studies and Statistics, Maritime Administration, U.S. Department of Transportation.

EXHIBIT II.—U.S.-FLAG VESSEL CONSTRUCTION AND OPERATING COST ASSUMPTIONS (SCENARIO A)

Product and vessel type	Vessel capacity (DWT)	U.S. construction costs (in millions)	Fuel consumption (tons/day)		Cargo capacity (m t)
			At sea	In port	
Logs—Logger	25–26,000	$29.9	30	2	20,000
Chips—Chip carrier	38,000	39.5	35	2	14,000
Lumber—Open-hatch forest products carrier	30,000	58.5	30	5	20–21,000
Lumber—Logger	25–26,000	29.9	30	2	19–20,000

EXHIBIT III.—COMPARISON OF UNITED STATES AND FOREIGN FLAG CHARTER FIXTURES, JANUARY 1981 TO MARCH 1982

Week ending—from, to	Cargo	Tons	Type	Vessel name	Flag	Rate	Terms	Total
Jan. 24, 1981:								
U.S. Gulf to Alexandria or Port Said	Wheat flour	[1] 10,500	DC	Defiance	Am	$76.28	FD	$800,940
Do	do	[1] 11,500	DC	Ocean Defender	Li	76.28	FD	877,220
Jan. 31, 1981:								
Columbia River to Alexandria or Port Said	Wheat	20,000	DC	President Cleveland	Am	139.82	FD	2,796,400
Do	do	23,500	DC	Faustina	Li	52.75	FD	1,239,625
Feb. 14, 1981:								
U.S. Gulf to Acajutla	do	8,000	DC	Grain Transporter	Am	78.34	FD	626,720
Do	do	6,000	DC	Valtetsi	Pa	37.00	FD	222,000
Mar. 7, 1981:								
U.S. Gulf to Jakarta or Surabaya	Rice	[1] 14,500	DC	Sam Houston	Am	94.75	FD	1,373,875
Do	do	12,500	DC	Jalabert Bontang	Ia	72.00	FD	900,000
Mar. 21, 1981:								
U.S. Gulf to Alexandria or Port Said	Wheat flour	[1] 7,500	DC	Genevieve Lykes	Am	130.90	FD	981,750
Do	do	[1] 6,000	DC	Atlas	Li	71.36	FD	428,160
May 9, 1981:								
U.S. Gulf to Jakarta or Surabaya	Rice	[1] 7,000	DC	Velma Lykes	Am	115.00	FD	805,000
Do	do	[1] 6,500	DC	Palembang	In	72.00	FD	468,000
May 9, 1981:								
Northern Pacific to Alexandria or Port Said	Wheat	23,000	DC	Traveler	Am	110.17	FD	2,533,910
Do	do	23,000	DC	Alkman	Gr	40.75	FD	937,250
June 27, 1981:								
U.S. Gulf to Puerto Cortes	do	[1] 2,850	DC	Grain Transporter	Am	90.00	GT	256,500
Do	do	[1] 2,850	DC	La Minera	Bs	35.50	GT	101,175
July 4, 1981:								
U.S. Gulf to Matadi	do	15,500	DC	Bulk Transporter	Am	147.75	FD	2,290,125
Do	do	12,000	DC	Orient Horizon	Li	58.50	FD	702,000
July 25, 1981:								
U.S. Gulf to Chittagong	Soybean oil	[1] 3,000	DC	Benjamin Harrison	Am	177.90	......	533,700
Do	do	[1] 4,000	DC	Banglar Mamata	Bh	119.00	......	476,000
Aug. 8, 1981:								
U.S. Gulf to Casablanca	Wheat	20,000	DC	Point Manatee	Am	72.25	FD	1,445,000
Do	do	[1] 23,000	DC	Dona Elvira	Pa	27.25	FD	626,750
Aug. 29, 1981:								
U.S. Gulf to Kingston	Rice	[1] 1,083	DC	Adabelle Lykes	Am	85.00	FD	92,055
Do	do	[1] 1,200	DC	St. Ann's Bay	Jm	38.00	FD	45,600

Jan. 16, 1982:								
Columbia River to Alexandria or Port Said	Wheat	24,000	DC	Wilmington Getty	Am	101.37	FD	2,432,880
Do	do	25,000	DC	Mercy	Li	31.99	FD	799,750
Jan. 16, 1982:								
Columbia River to Karachi	do	[1] 15,000	DC	President Jackson	Am	86.00	GT	1,290,000
Do	do	[1] 15,000	DC	Marathon	Gr	35.00	GT	525,000
Feb. 6, 1982:								
Northern Pacific to Alexandria or Port Said	do	22,000	DC	Potomac	Am	112.10	FD	2,466,200
Do	do	25,000	DC	Common Venture	Gr	30.01	FD	750,250
Do	do	20,000	T	Little Apex	Am	108.02	FD	2,160,400
Do	do	20,000	T	Concho	Am	97.68	FD	2,930,400

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[1] Part cargo.

Terms; FD-Free Discharge; GT-Gross Terms.

Vessel Types: DC-Dry cargo.

Source: Maritime Research Charter Newsletter.

COST SCENARIO A

Construction of U.S.-flag vessel in the United States without the aid of construction differential subsidy and operated without operating differential subsidy:

U.S.-flag vessel is a 38,000 DWT chip carrier constructed in 1981 for $39.5 million. A capital recovery factor of 16 percent per year is used.

Annual U.S. crew costs are taken as $3.5 million for a crew size of 30.

Administration and supply costs, as well as maintenance and repair costs for the U.S.-flag vessel are assumed to be approximately double the foreign level. This is consistent with the experience of companies operating both U.S. and foreign ships.

Insurance costs are assumed to be approximately 1.8 percent of the capital cost of the ship.

Fuel consumption is estimated to be 233 barrels (35 tons) per day at sea and 13 barrels (2 tons) per day in port. Fuel consumption in port includes auxiliary power requirements. Assume Bunker C fuel at $25/bbl.

Annual operating costs are budgeted for a 350-day year. Assume 9.3 trips per year at 9,000 round trip miles per voyage. This reflects 262 days (75 percent) at sea and 88 days (25 percent) in port. Assume 130,200 tons carried per year, or 14,000 tons per trip.

COST SCENARIO A.—ANNUAL COSTS OF U.S.-FLAG CHIP CARRIER RECEIVING NO DCS AND ODS SUBSIDIARIES

[Dollars in millions]

	Amount	Percent
Capital cost	$6.32	47.9
Crew payroll	3.50	26.5
Total		74.4
Crew food	.085	.6
Stores/supplies/administration	.400	3.0
Maintenance repairs	.600	4.5
Insurance	.739	5.6
Fuel	1.55	11.7
Total	13.194	100
Per ton carried	$101.34	

COST SCENARIO B

Construction of U.S.-flag vessel in the United States without the aid of construction differential subsidy but operated with operating differential subsidy:

U.S.-flag vessel is a 38,000 DWT chip carrier constructed in 1981 for $39.5 million. A capital recovery factor of 16 percent per year is used.

Operating costs eligible for ODS subsidy include: wages, maintenance and repairs, and insurance. The prevailing subsidy levels are 70 percent for wages; 25 percent for maintenance and repairs; and 50 percent for insurance. These subsidies are reflected in the annual cost figures shown.

All other operating costs and assumptions remain the same as shown in Scenario A.

COST SCENARIO B.—ANNUAL COSTS OF U.S.-FLAG FOREST PRODUCTS CARRIER RECEIVING ODS SUBSIDY BUT RECEIVING NO CDS SUBSIDY

[Dollars in millions]

	Amount	Percent
Capital cost	$6.32	61.8
Crew payroll	1.05	10.3
Total		72.1
Crew food	.085	.8
Stores/supplies/administration	.400	3.9

COST SCENARIO B.—ANNUAL COSTS OF U.S.-FLAG FOREST PRODUCTS CARRIER RECEIVING ODS SUBSIDY BUT RECEIVING NO CDS SUBSIDY—Continued

[Dollars in millions]

	Amount	Percent
Maintenance/repairs	.450	4.4
Insurance	.370	3.6
Fuel	1.55	15.2
Total	10.255	100
Per ton carried	78.53	

COST SCENARIO C

Construction of U.S.-flag vessel in the United States with the aid of construction differential subsidy and operated with operating differential subsidy:

U.S.-flag vessel is a 30,000 DWT chip carrier constructed in 1981 for $39.5 million. CDS subsidy reduces the purchaser's capital cost to $19.75 million. A capital recovery factor of 16 percent per year is applied to this $19.75 million figure.

Operating costs eligible for ODS subsidy include: wages, maintenance and repairs, and insurance. The prevailing subsidy levels are 70 percent for wages; 25 percent for maintenance and repairs; and 50 percent for insurance. These subsidies are reflected in the annual cost figures shown.

All other operating costs and assumptions remain the same as shown in Scenario A.

COST SCENARIO C.—ANNUAL COSTS OF U.S.-FLAG FOREST PRODUCTS CARRIER RECEIVING CDS AND ODS SUBSIDIES

[Dollars in millions]

	Amount	Percent
Capital costs	$3.16	44.7
Crew payroll	1.05	14.9
Total		59.6
Crew food	.085	1.2
Srores/supplies/administration	.400	5.7
Maintenance/repairs	.450	6.4
Insurance	.370	5.2
Fuel	1.55	21.9
Total	7.065	100
Per ton carried	54.26	

COST SCENARIO D

Construction of U.S.-flag vessel in a foreign yard through extension of the current temporary authority with operating differential subsidy continued.

U.S.-flag vessel is a 38,000 DWT chip carrier constructed in 1981 for $14.5 million. This price reflects lower shipbuilding costs in Japanese and South Korean yards. U.S. vessels built in foreign shipyards, however, are not eligible for CDS subsidy. A capital recovery factor of 16 percent per year is applied to the $14.5 million figure.

Foreign-built U.S. ships acquired in fiscal year 1982 and fiscal year 1983 are eligible for ODS. Cost elements eligible for ODS are the same as those shown in Scenario B.

All other operating costs and assumptions remain the same as shown in Scenario A.

COST SCENARIO D.—ANNUAL COSTS OF U.S.-FLAG FOREST PRODUCTS CARRIER BUILT IN FOREIGN YARD AND RECEIVING ODS SUBSIDY

[Dollars in millions]

	Amount	Percent
Capital cost	$2.32	37.3
Crew payroll	1.05	16.9
Total		54.2
Crew food	.085	1.4
Stores/supplies/administration	.400	6.4
Maintenance/repairs	.450	7.2
Insurance	.370	5.9
Fuel	1.55	24.9
Total	6.225	100
Per ton carried	$47.80	

COST SCENARIO E

Construction of foreign-flag vessel in a foreign yard and operating under foreign maritime regulations.

Foreign-flag vessel is a 38,000 DWT chip carrier constructed in 1981 for $14.5 million. This price reflects lower shipbuilding costs in Japanese and South Korean yards. A capital recovery factor of 16 percent per year is applied to this $14.5 million figure.

Annual foreign crew costs are taken as $1.1 million for a crew size of 25. This figure represents an average between high-cost European crews and low-cost Far Eastern crews.

Administration and supply costs, as well as maintenance and repair costs for the foreign-flag vessel are approximately one-half the U.S. level. This is consistent with the experience of companies operating both U.S. and foreign ships.

Insurance costs are assumed to be approximately 1.87 percent of the capital cost of ship.

Fuel costs are assumed to be the same for U.S.- and foreign-flag vessels since it is assumed that both are equipped with low-speed diesel engines.

Utilization rates and annual tonnage carried are assumed to be the same for U.S.- and foreign-flag vessels.

COST SCENARIO E.—ANNUAL COSTS OF FOREIGN-FLAG CHIP CARRIER BUILT IN FOREIGN YARD AND MANNED BY FOREIGN CREW

[Dollars in millions]

	Amount	Percent
Capital cost	$2.32	40.1
Crew payroll	1.10	19.0
Total		59.1
Crew food	.060	1.0
Stores/supplies/administration	.200	3.5
Maintenance/repairs	.280	4.8
Insurance	.271	4.7
Fuel	1.55	26.8
Total	5.781	100
Per ton carried	$44.40	

COST SCENARIO F

Permitting U.S.-owned foreign-flag vessels to be registered and operated under the U.S. flag and immediately eligible to carry government generated cargoes.

The vessel is a 38,000 DWT chip carrier constructed in 1981 in a foreign yard for $14.5 million. A capital recovery factor of 16 percent is used.

U.S. manning requirements apply, so crew costs are taken as $3.5 million for a crew size of 30.

Insurance costs are assumed to be approximately 1.87 percent of the capital cost of the ship.

All other operating costs and assumptions are the same as described in Scenario A for a U.S.-flag vessel.

COST SCENARIO F.—ANNUAL COSTS OF REFLAGGED FOREST PRODUCTS CARRIER RECEIVING NO CDS & ODS SUBSIDIES

[Dollars in millions]

	Amount	Percent
Capital cost	$2.32	26.6
Crew payroll	3.5	40.1
Total		66.7
Crew food	.085	1.0
Stores/supplies/administration	.400	4.6
Maintenance/repairs	.600	6.9
Insurance	.271	3.1
Fuel	1.55	17.8
Total	8.726	100
Per ton carried	$67.02	

APPENDIX

DESCRIPTION OF MAJOR MARITIME SUBSIDY PROGRAMS

Operating differential subsidy (ODS).—U.S. Maritime Administration provides ODS payments under 20-year contracts to U.S.-flag operators in international trade, to compensate for their higher costs (principally labor) of operating under the U.S. flag. About 150 ships are currently under ODS contracts, at an annual cost of approximately $400 million. Until this year, foreign-built ships were ineligible for ODS payment. However, new foreign-built ships are eligible for ODS under the current temporary (two-year) authority for construction of ODS-supported vessels in foreign yards.

Construction differential subsidy (CDS).—U.S. Maritime Administration has authority to provide CDS payments to ODS operators, to compensate for the higher costs of building vessels in U.S. shipyards, up to 50 percent of the U.S. cost. The Maritime Administration has found that U.S. shipyards, on the average, are using a lower level of technology than foreign shipyards in six of eight categories studied. No appropriation for new CDS contracts was sought for either fiscal year 1982 or fiscal year 1983.

Title XI.—U.S. Maritime Administration has authority to guarantee mortgages for up to 87.5 percent of the cost of ships built in U.S. yards. Outstanding loan guarantees now total $7.9 billion of a $9.5 billion statutory maximum. This program is of particular importance to shipowners in view of the termination of CDS.

Capital construction fund (CCF).—U.S. citizens owning or leasing certain U.S.-flag vessels are permitted to defer federal income taxes owed from the operation of such vessels, provided the money is deposited in a CCF. Income earned on deposits in the CCF is likewise tax deferred. Withdrawls from the fund must be used to acquire, construct or reconstruct U.S.-flag, U.S.-built vessels. President Reagan has endorsed use of tax-deferred construction funds for purchase of foreign-built ships.

Domestic repair of U.S.-flag ships.—U.S.-flag ships are subject to a 50-percent duty on the value of repairs made abroad, except for narrowly defined and provable emergency repairs. Relief from this tariff would permit ship operators significantly more flexibility in making vessel repairs overseas and would reduce the repair element of ODS.

Cabotage.—Cabotage laws have been in force in America since 1817. The most recent legislation, Section 27 of the Merchant Marine Act of 1920 (the Jones Act) stipulates that all domestic waterborne trade must be carried in vessels built and registered in the United States, and owned and crewed by U.S. citizens. The Jones Act guarantees the United States a domestically built fleet and guarantees jobs in the maritime industry.

U.S. Coast Guard regulations.—U.S. crew sizes continue to exceed those of foreign competitors because minimum manning levels for deck and engine crew and mandated by the U.S. Coast Guard. These regulations have not kept pace with technological advances in ship design and cargo handling which facilitate smaller crew sizes.

Cargo reservations.—Statutes require that U.S flag vessels be utilized in transporting the following government-impelled cargoes:

(1) All military cargo (with minor exceptions); (2) all Export-Import Bank financed shipments, except that 50 percent may be waived to ships of the recipient country; and (3) 50 percent of U.S. government aid shipments, government-assisted imports and exports, and U.S. civilian agency exports and imports (Public Law 48 and AID grain shipments and Strategic Petroleum Reserve shipments comprise the bulk of these cargoes).

The U.S. Office of Management and Budget estimates the *additional* costs to the Federal Government of these programs, not including the Strategic Petroleum Reserve, is $400–$500 million a year. This compares to the projected ODS payments in 1982 of $417 million. Together, these subsidies cost the U.S Government nearly a billion dollars a year.

Bilateral cargo preference agreements.—The United States has negotiated bilateral agreements with Brazil, Argentina, China, and the Soviet Union which usually reserve to each of the trading partners 40 percent to 50 percent of the cargo shipped between them. The U.S. is currently negotiating similar agreements with the Philippines, Indonesia, and possibly South Korea. Such agreements tend to exclude or severely restrict cross-traders, i.e., shipping lines carrying goods between two foreign countries.

United Nations Conference on Trade and Development (UNCTAD).—The United Nations is encouraging developing countries to enter world shipping markets through a so-called Liner Code, allowing countries which ratify it to divide up their liner cargo giving each trading partner 40 percent, with the remaining 20 percent going to cross-traders. This code will become a legally binding international treaty when world shipping tonnage owned by ratifying parties exceeds 25 percent.

COMPARISON OF UNITED STATES AND FOREIGN SHIP CONSTRUCTION AND CREW COSTS

Probably the single most important factor contributing to the decline in U.S.-flag shipping and its current non-competitiveness is the extremely high cost of U.S. maritime labor compared to non-U.S. maritime labor. The following table provides cost comparisons regarding U.S. vs. foreign crewing:

REPRESENTATIVE CREW COSTS

	U.S. flag		OECD flag		Non-OECD flag	
	Manning level	Daily cost	Manning level	Daily cost	Manning level	Daily cost
Ship type:						
Liner	39	$8,200	33	$3,061	37	$1,616
Dry bulk	26	6,250	26	2,100	26	1,250
Tanker	26	6,200	26	2,310	26	1,375

The cost of construction in U.S. shipyards, in part because of labor costs, is also far greater than in foreign yards generally. Below is an example of U.S. vs. Japanese construction costs:

REPRESENTATIVE SHIP CONSTRUCTION COSTS

[dollars millions]

	United States	Japan
Ship type:		
Liner (2,450 TEU) [1]	$118.0	$61.5
Dry bulk (35,000 DWT) [2]	62.0	27.3
Tanker (90,000 DWT) [2]	86.0	41.3

[1] TEU: Twenty-foot equivalent units. A standard measure of containerships.

[2] DWT: Dead-weight tons.

Source: Office for Policy and International Affairs, U.S. Department of Transportation.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS THERETO

Question 1. Some opponents of cargo reservation maintain that if national defense is dependent upon U.S. flag vessels, financing for construction and operation of these vessels should be paid out of the defense outlays and shared by all Americans.

Do you agree with this approach?

Answer. Our answer is yes on financing construction of the vessels out of defense outlays. However, our answer is no on financing the operation of these vessels. We would suggest exploring the possibility that the Navy would charter vessels to the private sector of the merchant marine, which would then seek to operate the vessels on a competitive basis.

Question 2. It has been said that cargo reservation places the burden of subsidizing the U.S. merchant fleet on one class, i.e., shippers.

If it is in the national interest to have a strong merchant marine, would you favor subsidizing it through adequate levels of CDS and ODS? In that event, the cost of subsidy is borne by everyone.

Answer. We recognize CDS and ODS have not realized there objectives. Therefore, we do not support these programs. We would, however, view favorably incentives that would achieve competitive costs and that would be funded from the overall national tax base.

Question 3. Some commodity interests have urged that cargo preference should only apply to U.S. imports. That way our exports would remain competitive in world markets.

If there were no cargo preference for exports, how would U.S. bulkers be assured of cargo on the outbound portion of a voyage?

Would you please comment?

Answer. First, as I indicated in my oral testimony, we are against cargo preference as a matter of principle. Over and above this, if the United States were so to move, we are greatly concerned that this would initiate reciprocal action on the part of other countries. Finally we are seriously concerned that if such action were taken it would interfere with the availability of vessels for our outbound export trade. We are dependent upon those vessels coming to the United States in order to have them available for the outbound movement.

Question 4. According to one source, a recent study conducted by the Center for Naval Analyses (CNA) estimates that, under the House counterpart to S. 1624, the estimated percentage increase on the landed price of lumber would be 1.34 percent.

Do you agree?

Answer. In the CNA's Table 3-10, the FOB price per long ton in 1981 is clearly wrong. The CNA used a conversion of about 1.25 long tons per 1,000 board feet of Douglas-fir sawlogs. According to one of the major log exporting companies, 1,000 board feet of Douglas-fir sawlogs weighs on the average 3.75 long tons. Using this correct conversion factor, and assuming other relevant factors in the Table are correct, the cost of H.R. 1242 as a percentage of landed cost would be 3.14 percent, not 1.34 percent.

The break-even foreign rate and the U.S. foreign differential cost to the shipper in Table 3-10 are not above suspicion but the CNA Document does not provide sufficient information on their construction.

Footnote *d* is not clear. Does it mean that those exporters shipping in U.S. flag vessels would have to pay only $4.06 more per long ton than those shipping in foreign flag vessels? Or does it mean that the average of all exports would be only

$4.05 more if 20 percent of the exports of lumber (or more correctly, logs) were made in U.S. flag vessels? If the latter is the case, the differential is really $20.30 ($4.06 × 5) and the cost for those competitors unfortunate enough to ship in U.S. vessels is 15.7 percent (3.14 × 5) higher than for those exporting in foreign bottoms.

Question 5. In your statement you cite the higher transportation costs caused by the Jones Act as the reason why the share of waterborne lumber from the U.S. Pacific Coast disappeared absolutely, while the share from British Columbia increased from 2 percent to 100 percent.

Doesn't the lumber industry in British Columbia receive some form of subsidy, which makes its product less expensive regardless of transportation costs?

Answer. The advantage British Columbia exporters have is not the result of subsidies. This is documented in the investigation of alleged subsidies by the U.S. International Trade Administration (ITA) in 1982–1983. The investigation was carried out in response to a petition by a group of U.S. lumber producers seeking a countervailing duty on imported Canadian softwood lumber. In its decision announced on May 23, 1983, the ITA concluded that any subsidies from Canadian federal or provincial governments were de minimis (less than 0.5 percent) and that a countervailing duty is not warranted.

Thus, subsidies considered in the case could not have been a critical factor in the loss of the U.S. East Coast market to British Columbia. Attached for your further information is an excerpt from the filing by Weyerhaeuser Company in the above-described ITA proceeding.

CONDITIONS RELATING TO THE IMPORTATION OF CANADIAN SOFTWOOD LUMBER INTO THE UNITED STATES

Regional econimic social, political and biological factors play key roles in determing the overall competitiveness bewteen Canadian and U.S. producers, Canada's forest products industry cannot be treated as a homogeneous entity and neither can the U.S. industry. The forest industry in the province of British Columbia, for example, differs significantly from the one in Quebec, just as the U.S. Pacific Northwest industry differs from that of the U.S. South. There is only limited and scattered data that allows an accurate comparison of the full impact that these regional differences play in industry competitiveness. Since much of our Canadian experience is in British Columbia—and it appears that the issue of industry competitiveness centers there—our comments reflect more on British Columbia than the other provinces.

Quality of the timber resource.—In North America, the U.S. Pacific Northwest forests produce higher valued wood species and a higher qualtiy log mix than do the forests of British Columbia. For example, 48 percent of the softwood timber inventory in the Pacific Northwest is Douglas fir compared to only 7 percent in British Columbia (Haley, 1980, p. 226). British Columbia's main timber inventory is western hemlock and Pacific silver fir on the coast and spruce and lodgepole pine in the interior of the province. These species tend to be of lesser value than the preferred Douglas fir (see Attachment B). The Pacific Northwest timber resource also provides a higher proportion of plywood and clear lumber in the end product mix. These quality differnces are reflected in the prices paid for the raw material and, ultimately, for the manufactured end products. These same quality differences also make Pacific Northwest logs highly desirable for log export markets. Log exports are a factor on prices paid for the high quality timber on Washington State-owned land and on privately-owned land. However, log exports are not a factor in prices paid for timber on Oregon state-owned land or federally-owned land, because logs cannot be exported from these lands under current regulations.

Timber sales and stumpage costs.—Another factor affecting the competition between Canadian- and U.S.-produced lumber is the fundamental difference in the methods of selling timber and the resulting stumpage costs. First, there are differences in the timber sales procedures between British Columbia and the Pacific Northwest which can account for higher stumpage prices in the U.S. In the coastal Pacific Northwest, public timber sales are required to be sold by competitive bidding for harvest within three to five years depending on the accessibility of the timer. British Columbia lumber producers bid competitively against one another to pay a lump sum for rights to new 10–25 year timber harvesting licenses. The successful bidders are then granted long-term licenses on large areas as incentives to develop remote areas and invest in the local infrastructure.

Secondly, in the timber sales system of interior British Columbia the final cost at harvest of public standing timber is indexed to finished product prices that refect existing market conditions at the time of harvest. In a depressed lumber market, such as that existing today, the price of British Columbia standing timber reflects the lumber price slide. The Canadian pricing system is directly responsive to declining markets, whereas for the U.S. Forest Service sales system in the coastal Pacific Northwest, the prices fall with the expectations of the bidders. The Canadian stumpage prices rise faster in rising product markets and fall faster in falling markets.

As a result of these differences, over the past ten years the average stumpage prices of timber sold in the Pacific Northwest. It is important, however, to note that simply comparing stumpage prices timber in Canada and the U.S. does not accurately reflect total wood costs. In U.S. Forest Service sales, for example, the appraised price of public standing timber also includes costs for road construction. These road costs are subtracted from the bid price for the timber after the road is built, so that the amount actually paid for the timber is less than the successful bid price. In British Columbia, especially along the coast, logging is very difficult and costly, the infrastructure is not well developed, and some of the timber is located in remote areas. The British Columbia timber purchaser pays high development costs in addition to, rather than as an offset against, the official timber prices. If these development costs were included in stumpage calculations, the price differential between U.S. and Canadian wood costs would be substantially reduced.

In conclusion, there are several factors which influence the overall competitiveness between Canadian and U.S. producers. The situation is highly complex, and the comparative advantages to producers on both sides of the border are not always readily apparent.

ATTACHMENT B.—LUMBER PRICES F.O.B. MILL

	Douglas-fir	($/MBF) Hem-fir (coast)	Hem-fir (inland)	Spruce-pine-fir [1] (western)
1970	84	75	72	73
1971	111	100	109	103
1972	134	120	121	118
1973	177	161	164	162
1974	150	139	145	132
1975	151	130	135	125
1976	160	148	155	144
1977	199	172	180	165
1978	236	211	221	195
1979	252	240	243	224
1980	223	186	194	174
1981	193	171	187	169

[1] Primarily a Canadian mix.

Source: Random lengths, June prices used. All prices are for 2 x 4's, standard and better grade, random lengths.

American Paper Institute, Inc.,
Washington, D.C., October 11, 1983.

Hon. Ted Stevens,
Chairman, Merchant Marine Subcommittee, Commerce, Science, and Transportation Committee, Russell Senate Office Building, Washington, D.C.

Dear Senator Stevens: On September 29, 1983, during the course of my testimony on S. 1624, The Merchant Marine Revitalization Act of 1983, and related bills, I indicated I would be submitting for the record an expanded analysis of cargo preference policies demonstrating the debilitating impact these requirements would have on a broader range of forest products. The reason for submitting this expanded analysis is that it reflects upon references contained in the June, 1983 Cargo Preference Study by the Center for Naval Analyses.

I now submit that Study, which was initially prepared by American Paper Institute, Inc. in relation to earlier legislative initiatives.

Respectfully yours,

Robert E Heine,
Vice President and Director of Transportation and Distribution, ITT Rayonier Inc.

Enclosure.

CARGO PREFERENCE WILL REDUCE EXPORTS OF PULP, PAPER AND PAPERBOARD

There are various proposals being considered which would require U.S. shippers to utilize U.S. built flagships for transporting certain percentages of their exports to overseas markets. The Senate, for example, is considering a proposal (S. 1624) that would require shippers of bulk cargo to ship 20 percent of their overseas exports in U.S. flagships under certain prescribed conditions. The House of Representatives is considering a similar bill, the Boggs bill (H.R. 1242), which also requires that 20 percent of shippers' exports be on U.S. ships, but under somewhat different conditions. In addition, UNCTAD is fostering a proposal which suggests that 40 percent of the export tonnage be carried on the exporting country's ships; 40 percent on the importing country's ships and 20 percent on third country flagships.

Advocates of these proposals in the U.S. point to various benefits that would accrue from such requirements. These include strengthening of the U.S. Merchant Marine; strengthening and expanding the U.S. shipbuilding industries; and expanding job opportunities in both U.S. shipyards and on the additional U.S. ships put in service. The advocates further assert that the cost to the shippers of these proposed programs would be minimal, thus making a case that benefits exceed costs by a wide margin.

The American Paper Institute examined this question of costs versus benefits because of the sensitivity of U.S. exports to transportation costs. Experience with existing laws and regulations relating to cargo shipment requirements which have been in place for many years is by itself not too encouraging in terms of achieving these stated benefits. A special study undertaken by the American Paper Institute confirms that the costs of such requirements are indeed large and the realizable benefits remain a question.

On the basis of our analysis and evaluations, we conclude that:

1. Increases in transportation costs resulting from these requirements will penalize exports. (U.S. exports are already heavily burdened by an overvalued dollar.)
2. Such legislated increases in transportation costs will deter the urgently needed export initiatives of U.S. manufacturers.
3. Capital spending decisions which are generally made 4-5 years in advance of sales would be lowered, reflecting the reduced export volume resulting from higher transportation costs.
4. Job creation in both the industry and supplier companies would be less than otherwise.

These negative developments would have a serious effect on both the U.S. pulp and paper industry and on the U.S. economy as a whole. U.S. producers of pulp and paper are the least cost producers worldwide. This competitive cost advantage coupled with aggressive investment in new capacity has helped U.S. manufacturers increase exports of wood pulp, paper and paperboard at a 13 percent a year rate between 1970 and 1981. The value of the industry's exports was $3.7 billion in 1981 or about 3.8 times the 1970 level.

Studies show that with a favorable trading climate and continued attention to cost management, including transportation costs, the historical rate of expansion in exports can be accelerated.

Transportation costs are an important factor in meeting the high export potential. This sensitivity of the industry's exports to transportation costs was clearly revealed in a study initiated by the American Paper Institute to evaluate the impact of various alternative proposals for cargo preference.

ESTIMATES OF ADDED TRANSPORTATION COSTS

The first step in the study involved measurement of the costs associated with various proposed cargo preference requirements. These were significantly higher under cargo preference treatment.

A 20 percent requirement in cargo preference by the year 2000 would add 23 percent to the pulp and paper industry's transportation costs in export markets.

A 40 percent requirement would add 47 percent to the overall transportation costs to foreign customers.

IMPACT OF HIGHER TRANSPORTATION COSTS ON EXPORTS—BASE CASE

A model built and maintained by the consulting firm Data Resources, Inc. to predict linerboard demand in Western Europe for its clients was used by the American

Paper Institute to measure the impact of these added transportation costs on U.S. exports to Western Europe.

In the Base Case, which assumes no changes in legislation affecting either the use or pricing of water borne shipments, the following encouraging results were obtained for linerboard which is one of the principal products moving into foreign markets.

U.S. exports to Western Europe are expected to grow 36 percent between 1980 and 2000—to about 1.2 million tons.

The U.S. share of Western Europe's requirements rises from 43 percent in 1980 to an anticipated 51 percent in 2000, displacing other exporters such as Canada and Sweden.

U.S. exports are sensitive to changes in transportation costs; a 10 percent increase in transportation costs results in a 6 percent decline in exports of kraft linerboard to Western Europe.

Transportation costs of U.S. linerboard to Western Europe, which now account for 30 percent of the total variable costs in the U.S., would remain competitive with Canada but still would be twice the 15 percent cost for Scandinavian exports in the year 2000.

IMPACT WITH A 20-PERCENT REQUIREMENT

The increase in transportation costs resulting from a requirement that 20 percent of the cargo be shipped in U.S. ships would have significant negative effects. (See Table II.)

The share of total costs accounted for by transportation costs for U.S. exports would rise to 35 percent from the estimated 30 percent in 2000, giving a relative disadvantage to U.S. products from Canadian as well as Scandinavian linerboard.

Imports of linerboard to Western Europe would be 155,000 tons or 14 percent below the potential and the U.S. share would remain flat instead of rising as in the Base Case.

The U.S. market share in 2000 would be 6 percent below the Base Case projection.

IMPACT WITH A 40-PERCENT REQUIREMENT

The sensitivity of exports to transportation costs is such that a 40 percent requirement would result in even greater losses.

Transportation costs (See Table IV) as a percent of delivered costs would rise to 40 percent from the present 30 percent, giving foreign producers an even bigger advantage than in the 20 percent Case.

A potential gain in linerboard exports to Western Europe will be turned into a loss. Linerboard exports to Western Europe by the year 2000 would be 36,000 tons less than the amount shipped in 1980. The higher transportation costs lop off 334,000 or 30 percent from the potential exports predicted in the Base Case.

The U.S. share of Western Europe's liner-board needs would fall to 36.6 percent in 2000 compared with a 42.8 percent penetration in 1980. (See Table III)

INDIRECT EFFECTS

As U.S. producers assess their capital requirements based upon future markets for linerboard, foreign as well as domestic, they would hold back on capacity additions because of reduced exports.

The loss in required new capacity resulting from the reduced export potential is equivalent to at least one new linerboard mill.

The failure to build the additional mill would result in:

A loss of 2,000 jobs in the capital goods industries for three to four years.

A loss of 900 jobs in the paperboard industry because of lower production.

A loss of 1,300 additional jobs in supplier industries.

These significant negative impacts result from the potential loss of exports of only one product to one established market.

THE EFFECTS UPON MARKET PULP EXPORTS

A similar analysis on the world demand for bleached market pulp utilizing the ongoing Weyerhaeuser Dynamic Linear Programming Model of the World Market Pulp Industry was also made. The results of that study are similar to those for linerboard.

A 10 percent increase in transportation costs of market pulp results in a 5 percent loss in pulp exports.

The Base Case shows that total bleached market wood pulp exports in the year 2000 would be 3,700,000 tons, compared to 1,300,000 tons in 1978 (the base year used for that study). This rise assumes no major changes in present shipping practices.

Under the 20 percent regulation, U.S. bleached kraft market wood pulp exports in the year 2000 (when fully implemented) would be 38 percent below the Base Case forecasts.

For the 40 percent Case, the exports in 2000 would be 43 percent below the Base Case forecasts.

The details of these studies are presented in the tables included in Appendix A and Appendix B, attached.

Measuring the impact of higher transportation costs for these two products alone in the single Western Europe market shows a loss of 1.5 million tons (or 31 percent) in the 20 percent Case and 2 million tons (40 percent) for the 40 percent Case from potential export levels. When one considers the growing export potential for the industry, particularly in the developing markets in the Pacific Basin, these losses could be multiplied by a large amount.

DYNAMIC EFFECTS OF HIGHER TRANSPORTATION COSTS

The models used to test the impact of higher transportation costs are "dynamic" in that they are based upon the relative costs of all the producers competing in foreign markets. The DRI model, for example, shows which country picks up the exports lost by U.S. producers because of U.S. higher transportation costs.

What is less clear is the dynamics of rate making by those offering shipping space under the altered rules. Our estimates of the increment in transportation costs under the proposals were based only upon the higher capital and operating costs adjusted for a modest premium of 35 percent. The 35 percent factor reflects an estimate of the effects of the pressure of rising demand on the available capacity of U.S. flagships. (We relied on the experience with grain shipments to provide this estimate, although in that study the premium was 35 percent above capital, operating costs and profits.)

API also estimated that an additional 25 percent cost would result from inefficiencies which naturally result from inflexibilities created by the legislated requirement to use U.S. ships.

These estimated cost overrides, however, do not include the changed bargaining position of both U.S. and foreign shippers which results from the requirement to use U.S. bottoms. The actual rates paid could be higher than the calculated cost increases used in API's analysis.

The DRI model estimates current transportation costs of U.S. exports to Western Europe at $84 a ton and projects them rising to $301 a ton by 2000 on the basis of current shipping practices.

If all shipments to Western Europe were on U.S. built and manned ships, the cost would be $660 a ton in 2000, or more than double the estimate based on ongoing practices.

API's analysis of the effect of a 20 percent cargo preference requirement assumes shipper costs would reflect the allocation of exports to U.S. ships and to foreign ships. Consequently, transportation costs by the year 2000 would average 80 percent of the $301 a ton level forecast by DRI for foreign carriers and 20 percent of the $660 U.S. cost—or about $373 a ton.

Although the calculations in this analysis did not specifically include the possible effects of requiring carriers to reduce their capital and ship operating costs by 20 percent or the 10 percent tax credit proposed in S. 1624, these adjustments would not necessarily close the gap between rates on U.S. and foreign ships estimated in this analysis. We did estimate the cost differentials between U.S. and foreign ships on the basis of the 15 percent cost reduction called for in the Boggs bill, and found that the cost differentials remained considerable. We also estimated the cost differentials between U.S. and foreign built ships redocumented in the United States.

The provisions in the Senate bill S. 1624 requiring carriers to set their rates for cargo delivered under S. 1624 at cost plus reasonable profit would require a considerable mark-up over capital and operating costs, much greater than the 35 percent used in this analysis. More importantly, this analysis shows that foreign demand for U.S. products is highly sensitive to price and it is highly probable that the market losses resulting from cargo preference legislation would not be very much different under S. 1624 than indicated in this analysis.

Under cargo preference conditions, market pressures would operate to encourage foreign shipping companies to quote more than DRI's estimated $301 a ton, given the $660 probable cost for carrying cargo on U.S. ships. This could result in an estimated overall transportation cost that is much higher than the calculated $373 used in this analysis. The negative impact would be correspondingly worse. In essence the U.S. ship cost of $660 a ton would act as an upward force in rate making.

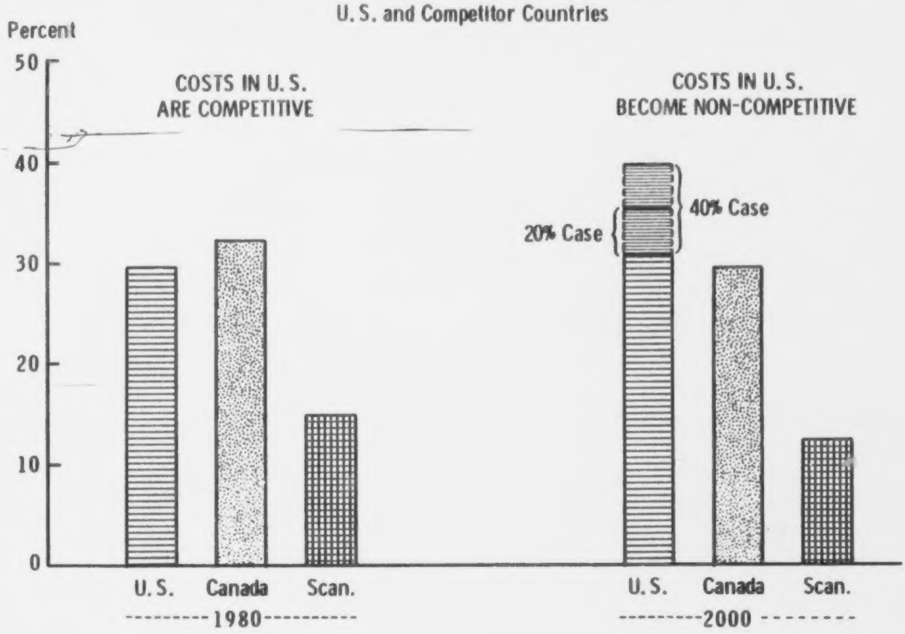
These cargo shipping requirements are designed to encourage more shipbuilding in the U.S. which would add to the world's overall shipping capacity. It is possible that oversupply could force third country flagships to reduce rates to other linerboard producers even while they raise rates to U.S. users, placing U.S. producers in an even greater disadvantage in export markets relative to foreign producers.

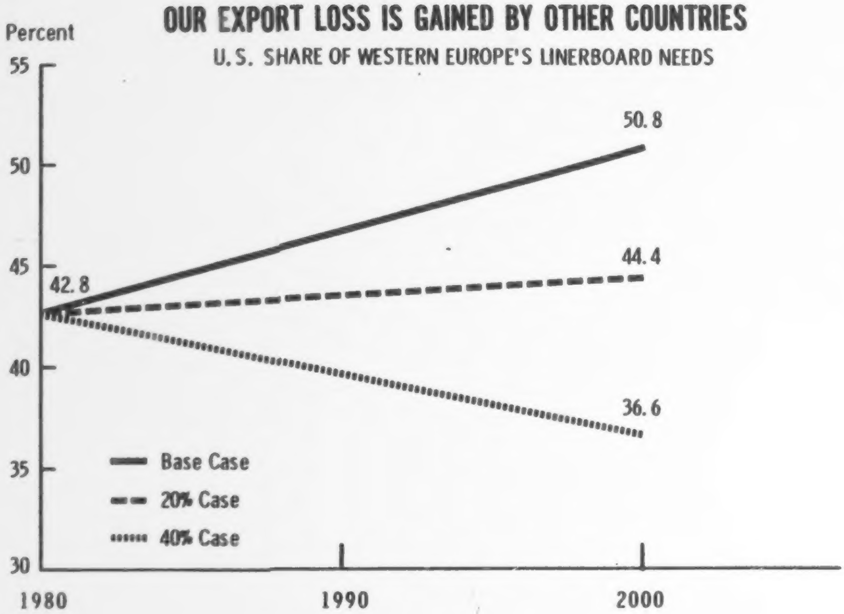
These added upward pressures on rates quoted in the U.S. have not been incorporated in our analysis since they involve the more difficult process of forecasting rates instead of the simpler exercise of estimating costs. The result would be an even larger negative effect on exports than our analysis shows.

CARGO PREFERENCE DISADVANTAGES U.S. TRANSPORTATION COSTS

(Transportation Costs as % of Delivered Costs to Western Europe)

U.S. and Competitor Countries





Appendix A.—Impact of Cargo Preference Law on Demand for United States Kraft Linerboard in Western Europe

Table 1.—Cost estimates

[Per ton carried]

	Amount
1. Cost per ton carried of U.S.-flag forest products carrier receiving no CDS or ODS subsidies	$95.82
2. Cost per ton carried of foreign-flag forest products carrier built in foreign yard and moved by foreign crew	47.31
3. Increase in cost on U.S. carrier	48.51
4. Additional percentage increase in cost resulting from pressure of legislated demand on available supply of U.S. carriers (35 percent of U.S. costs)	33.54
5. Additional percentage increase in cost resulting from inefficiencies forced by use of carriers (25 percent of U.S. costs)	23.95
6. Total cost increase	106.00

Table 1A.—Cost estimates based on S. 1624

[Per ton carried]

	Amount
1. Cost per ton carried of U.S.-flag forest products carrier receiving no CDS or ODS subsidies	$95.82
2. Cost reduced by 20 percent as required by S. 1624	76.66
3. Mark-up needed for reasonable profit (100 percent of costs)	76.66
4. Total cost plus profit less estimated rate	153.32
5. Base rate, current	84.00
6. Increase in rate	69.32
7. Additional percentage increase in cost resulting from inefficiencies forced by use of carriers, 25 percent of U.S. estimated rate	38.33
8. Total cost increase	107.64
9. 10 percent tax credit on difference	10.76
10. Net difference	96.88
11. Cost per ton carried of reflagged forest products carrier receiving no CDS or ODS subsidies	64.90
12. Net difference in rate based on above calculation procedure omitting 20 percent cost reduction	70.42
13. Average difference	83.65

DESCRIPTION

Impact of Cargo Preference Law—20 Percent Case

Table II shows the impact of a regulation that would require 20 percent of the exports to be shipped in the trading partners ships; and 20 percent on third flagships; (20 percent case) on the demand for kraft linerboard in Western Europe as analyzed by Data Resources, Inc., utilizing their ongoing model of linerboard demand in Western Europe.

The table shows that the DRI model projected a 36 percent increase in the demand for U.S. linerboard in Western Europe from 1980 through the year 2000, total increase of roughly 300,000 metric tons.

This increase would expand the U.S. share of the market from 42.8 percent in 1980 to 50.8 percent in the year 2000.

The study also notes a decline in U.S. linerboard shipments from 1980 to 1985. This decline resulted from the increase in the value of the U.S. dollar, which effectively increased the cost of U.S. linerboard in Western Europe. This graphically demonstrates the effect of such a price increase on the demand for linerboard.

The last two columns show the impact of the Boggs Bill on the demand for kraft linerboard in Western Europe, on the assumption that the bill would become effective in 1984. Thus, the 1980 level of demand and market share is the same as in the Base Case.

Under the 20 percent Case, the demand for U.S. linerboard would increase by only 17 percent by the year 2000 and the U.S. share would be 44.4 percent rather than the 50.8 percent projected. The potential market loss would increase steadily as the larger and larger share of the exports is shipped on U.S. ships.

The DRI model was based upon a study of the economies of the Western Europe countries and the costs of building and running kraft linerboard mills in the major supplying countries of the world: United States, Sweden, Finland and Norway.

The DRI study projected the demand for total containerboard (linerboard plus corrugating medium) in Western Europe to increase 32 percent from 1980 to 2000 for an average increase of 1.4 percent per year.

The study further projected that imports from these five countries to Western Europe would rise by 14 percent, or 0.7 percent per year. The 36 percent increase projected for imports of U.S. linerboard reflected the relatively strong competitive position of the U.S. industry in terms of cost of raw materials, cost of production and the availability of kraft linerboard relative to that from other supplying countries.

The DRI model also assumed that the value of the U.S. dollar would show only minor fluctuations from the current level and would not fall to the relatively low levels that held prior to 1980.

TABLE II.—IMPACT OF CARGO PREFERENCE LAW (20 PERCENT CASE) ON U.S. SHIPMENTS OF KRAFT LINERBOARD TO WESTERN EUROPE FROM U.S. SOUTH—TONS SHIPPED FROM U.S. SOUTH TO WESTERN EUROPE

	Base case		20-Percent case		Loss	
	Metric tons (thousands)	U.S. market share (percent)	Metric tons (thousands)	U.S. market share (percent)	Metric tons (thousands)	U.S. market share (percent)
1980	833	42.8	833	42.8		
1985	698	35.5	685	34.9	13	−0.6
1990	852	38.9	803	36.8	49	−2.1
1995	1,122	48.6	1,019	44.5	103	−4.1
2000	1,131	50.8	976	44.4	155	−6.4

Note.—Phase-in at 5 percent of tonnage in U.S. ships in 1984, increasing 1 percentage point per year until the 20 percent level is reached (1999), as required by Boggs bill.

Source.—Data Resources, Inc. Model of Linerboard Demand in Western Europe.

DESCRIPTION

Impact of cargo preference law (40-percent case)

Table III shows the impact of a cargo preference law on the assumptions of the UNCTAD concept, which requires shipments of 40 percent of covered exports in the exporting country's ships; 40 percent in the trading partner's ships and 20 percent in third party ships. The Base Case is, of course, the same as that for the 20 percent Case, as drawn from the Data Resources, Inc. model of linerboard demand in Western Europe.

The annual transportation cost factors for this case were computed in the same way as in the Boggs Bill case, i.e., the rate was the average of the cost on U.S. ships and on foreign ships weighted by the required percentages, but now using the UNCTAD percentages.

In the 40 percent Case, the demand for U.S. linerboard in Western Europe was phased in at 4 percent per year from 1984 to 1993. The analyses showed that the U.S. market share would fall from 42.8 percent in 1980 to 36.6 percent in 2000. The tonnage in 2000 would be 334,000 tones less than the Base Case projection.

The other factors affecting demand, such as the economic trends in the various Western European countries, the cost of producing linerboard in the supplying areas, and the exchange rates between the various countries, remain the same for all cases. The only factor changed reflects the increase in U.S. shipping costs and the two related increases in total exporting costs resulting from the limited supply of U.S. ships relative to the demand that is likely during this period and the inefficiencies in sending part of the export shipments on U.S. ships.

TABLE III.—IMPACT OF CARGO PREFERENCE LAW (40 PERCENT CASE) ON U.S. SHIPMENTS OF KRAFT LINERBOARD TO WESTERN EUROPE FROM U.S. SOUTH—TONS SHIPPED FROM U.S. SOUTH TO WESTERN EUROPE

	Base case		40-Percent case		Loss	
	Metric tons (thousands)	U.S. market share (percent)	Metric tons (thousands)	U.S. market share (percent)	Metric tons (thousands)	U.S. market share (percent)
1980	833	42.8	833	42.8		
1985	698	35.5	683	34.8	15	0.7
1990	852	38.9	749	34.5	103	4.4
1995	1,122	48.6	883	38.9	239	9.7
2000	1,131	50.8	797	36.6	334	14.2

Note.—40 percent in U.S. ships; 40 percent in trading partner's ships; 20 percent in third party ships. The phasein period chosen for this case was 4 percent for U.S. ships in 1984, then increasing 4 percentage points per year to 1993, 40 percent in U.S. ships thereafter. Based on the UNCTAD approach.

Source.—Data Resources, Inc. Model of Linerboard Demand in Western Europe.

DESCRIPTION

Transportation costs as percent delivered costs

Table IV presents an alternate way of analyzing the impact of cargo preference legislation.

This table presents the data of transportation costs as a percent of total delivered costs for each of the four countries and for the U.S. Base Case. It also shows the U.S. data for the Boggs Bill and UNCTAD Case assumptions.

For the Base Case, the U.S. maintains its transportation costs in the relatively narrow range of 27 to 32 percent of the total costs throughout the period. This would not be very different from the Canadian experience. Sweden is projected to reduce its transportation costs as a percent of total delivered costs from 14.6 percent in 1980 to 11.8 percent in the year 2000. Similarly, Finland is projected to reduce the relative cost of transportation from 17.5 percent in 1980 to 13.8 percent in the year 2000.

Under the 20 percent Case, the U.S. would increase its relative transportation costs from 29.6 percent of the total in 1980 to 36.1 percent in 1995 and hold close to that ratio through the year 2000.

Under the 40 percent Case, it would go from the 29.6 percent in 1980 to 41.1 percent in 1995 and ease only to 39.5 percent in the year 2000, under the assumptions established in the Data Resources Model.

TABLE IV.—KRAFT LINERBOARD TO NORTHERN EUROPE CONSTANT 1980 U.S. DOLLARS PER METRIC TON—TRANSPORTATION COSTS AS PERCENT DELIVERED COSTS

	United States			Canada	Sweden	Finland
	Base case	20 percent case	40 percent case			
1980	29.6	29.6	29.6	32.4	14.6	17.5
1985	27.4	29.0	29.5	31.5	12.5	14.9
1990	29.9	32.7	36.5	29.6	12.3	15.0
1995	32.0	36.1	41.1	31.2	12.3	15.2
2000	30.7	35.1	39.5	29.7	11.8	13.8

Source.—Data Resources, Inc. Model of Kraft Linerboard Demand in Western Europe.

DESCRIPTION

Transportation costs

Table V shows the transportation cost data used in the Data Resources, Inc. model for 1980 and each fifth year after 1980 to the year 2000. The actual study presented annual data.

The DRI model was originally run in terms of current dollars, with specific assumptions of the projected inflation rates in each of the countries analyzed in the model. The data presented in Table IV show the average transportation costs in each year adjusted for the price inflation trends used by DRI for each of the analyzed countries.

The table shows that in the Base Case, DRI projected transportation cost trends in the U.S. and in each of the linerboard producing countries to grow more slowly than their respective average rates of inflation between the years 1980 and 2000. However, in the 1985 to 1995 period, DRI expected the average transportation costs in the United States and Canada to rise a little faster than the inflation rate, while in Sweden and Finland the transportation costs would rise faster than the inflation rate between 1985 and 1990, then grow at about the same rate as the inflation rate in the 1990 to 1995 period.

The second column of Table IV shows the transportation costs in the DRI model as they would be under the 20 percent Case. Under this bill, the shippers are required to send 5 percent of their export shipments on U.S. flagships in 1984, and increase it by 1 percentage point per year until the 20 percent level is reached in 1999; thereafter the 20 percent level would hold.

The transportation costs listed under the 20 percent Case column were computed as a weighted average of the foreign flag and U.S. flag costs of shipping, where the weights reflected the percentage of exports required in each year. In 1985, for example, the dollar cost was computed by multiplying the foreign flag cost of $76 per ton by 94 percent and the cost on U.S. ships—$169 per ton in constant 1980 dollars—by 6 percent. Similarly, in the year 2000, the $91 weighted average was computed by multiplying the $74 Base Case price by 80 percent, and the U.S. flag cost of $162 per ton by 20 percent. All costs are expressed in 1980 dollars.

The transportation cost data for the 40 percent Case was similarly computed, based on the specific assumptions of the phasing period for that case. In the year 2000, for example, the Base Case price was multiplied by .6 and the U.S. flag price by .4.

As a result of these cargo preference laws, the U.S. would lose its competitive advantage against Canada on transportation costs by the end of this decade, while under both bills Sweden and Finland would greatly increase their competitive advantages throughout the next two decades. In the Base Case, by way of contrast, the U.S. would maintain a strong competitive advantage relative to Canada, while fairly well maintaining its competitive position against Sweden and Finland.

TABLE V.—KRAFT LINERBOARD TO NORTHERN EUROPE CONSTANT 1980 U.S. DOLLARS PER METRIC TON—TRANSPORTATION COSTS

	United States			Canada	Sweden	Finland
	Base case	20 percent case	40 percent case			
1980	84	84	84	103	45	55
1985	76	82	84	85	27	38
1990	78	89	105	89	30	40
1995	81	97	121	92	29	40
2000	74	91	109	81	25	34

Source.—Data Resources, Inc. Model of Kraft Linerboard Demand in Western Europe.

DESCRIPTION

Delivered costs

Table VI shows the total delivered costs for kraft linerboard from each of the four producing countries for the years 1980 and for every fifth year after that to the year 2000. These costs are expressed in constant 1980 dollars. They are based on their original DRI current dollar projections, in each of the four countries; DRI adjusted the costs for the inflation trends of each of the producing countries.

The differences in the total delivered costs between the Base Case; 40 percent Case and 20 percent Case costs shown in Table VI are the same as those between the corresponding transportation cost data shown in Table V, inasmuch as transportation costs were the only ones changed. The delivered costs reflect not only transportation costs but also the costs of producing linerboard in each of the various countries.

In 1980 the U.S. had a clear competitive advantage in terms of total delivered costs in western Europe relative to Canada, Sweden and Finland.

By 1985, the U.S. had lost much of its competitive strength as a result of the large increase in the value of the U.S. dollar relative to the currencies of Sweden and Finland; this increase in the U.S. dollar had a direct impact upon the local currency price of U.S. kraft linberboard in Northern Europe.

The DRI model Base Case projected that the delivered costs of U.S. kraft linerboard in terms of constant dollars would move steadily downward between 1985 and 2000, reflecting declines in all the major inputs analyzed—wood, energy, chemicals, labor and other materials—per ton of output.

Under the Base Case, the United States maintains its competitive advantage against Canada and Finland throughout the period 1990 to 2000.

Under the 20-percent case, the United States maintains a competitive advantage against Canada but loses it against Finland.

In the 40-percent Case, the U.S. delivered costs remain higher than those of Sweden and Finland throughout the 1985-2000 period, while in the last five years of this period the U.S. even loses its competitive edge against Canada.

TABLE VI.—KRAFT LINERBOARD TO NORTHERN EUROPE CONSTANT 1980 U.S. DOLLARS PER METRIC TON—DELIVERED COSTS

	United States			Canada	Sweden	Finland
	Base case	20 percent case	40 percent case			
1980	284	284	284	318	309	314
1985	277	283	285	270	210	255
1990	261	272	288	301	243	267
1995	253	269	294	295	236	264
2000	241	259	276	273	212	247

Source.—Data Resources, Inc. Model of Kraft Linerboard Demand in Western Europe.

DESCRIPTION

U.S. bleached market wood pulp exports

Table VII presents an analyses of the demand for exports of U.S. bleached market wood pulp in the period 1978–2000, based on the Weyerhaeuser Dynamic Linear Programming Model of the World Market Pulp Industry. This model used 1978 as the base year.

The Base Case data reflect the Weyerhaeuser analyses of the world market pulp industry in terms of the potential demand for market pulp in each of the markets around the world based upon their analyses of the specific economies and in pulp and paper industries in each of those markets, together with the analyses of the potential supply based upon the availability of raw materials and the cost of producing wood pulp in each of the supplying regions. The data shown in the Base Case present the forecasts of U.S. capacity to produce bleached market wood pulp in the 1978–2000 period, as projected by the Weyerhaeuser model, together with the projections of exports of bleached market wood pulp.

The data in the Boggs Bill Case reflect the potential impact of this legislation phased in according to the assumptions shown in the table.

The data under the 40 percent Case reflect the impact of 40 percent Case type legislation, phased-in according to the assumptions shown in the table. In this analyses the 40 percent level for U.S. exports is reached by 1995, and remains there after that year.

The average freight costs used are the same as those used for the DRI model and were computed on the basis of the same technique. For example, for the years 1995 and 2000 the 40 percent Case transportation costs were computed as the weighted average of costs on U.S. and foreign ships, with the U.S. costs having a 40 percent weight and the foreign costs a 60 percent weight. Only the transportation costs varied between the Base Case, the 20 percent Case and the 40 percent Case.

The Weyerhaeuser study shows that as a result of the Boggs Bill Case, U.S. capacity to produce bleached market wood pulp would be 100,000 tons less than under the Base Case by the year 2000. Similarly, export demand would fall from the projected 3.7 million tons to 2.3 million tons, for a market loss of 38 percent. For the UNCTAD Case, capacity would be 500,000 below the Base Case projections and exports 1.6 million tons below the Base Case projections for a market loss of 43 percent.

The Weyerhaeuser study shows that as a result of the 20 percent Case, export demand would fall from the projected 3.7 million tons to 2.3 million tons, for a market loss of 38 percent. For the 40 percent Case, exports would be 1.6 million tons below the Base Case projections, for a market loss of 43 percent.

TABLE VII.—U.S. BLEACHED MARKET WOOD PULP EXPORTS

[In million metric tons]

	Base case	20 percent case	40 percent case	Loss	
				20 percent case	40 percent case
1978	1.3	1.3	1.3		
1990	1.8	1.4	1.1	0.4	0.7

TABLE VII.—U.S. BLEACHED MARKET WOOD PULP EXPORTS—Continued

[In million metric tons]

	Base case	20 percent case	40 percent case	Loss	
				20 percent case	40 percent case
1995	2.5	1.6	1.2	.7	1.3
2000	3.7	2.3	2.1	1.4	1.6

Assumptions: 20 percent case: 20 percent of exports on U.S. flagships; 40 percent of exports on foreign flagships.
Phase-in: 1980—0 percent; 1985—6 percent; 1990—11 percent; 1995—16 percent; 2000—20 percent.
40 percent case: 40 percent of exports on U.S. flagships. 60 percent of exports on foreign flagships.
Phase-in: 1980—0 percent; 1985—14 percent; 1990—31 percent; 1995—40 percent; 2000—40 percent.
U.S. dollar remains strong.

Source: Weyerhaeuser Dynamic Linear Programming Model of the World Market Pulp Industry.

KRAFT LINERBOARD: DELIVERED COSTS FROM U.S. SOUTH TO WESTERN EUROPE 1980–2000

	1980	1985	1990	1995	2000
Current dollars per ton:					
Wood	$80	$108	$145	$208	$285
Energy	37	52	71	96	127
Chemicals	20	27	39	57	80
Labor	41	52	67	84	103
Other materials	22	30	43	62	88
Base case transportation	84	102	156	238	301
Delivered costs	284	371	521	743	984
Cost on U.S. ships	194	227	347	535	660
20-percent case transportation	84	110	177	285	373
Delivered costs	284	379	542	791	1,056
40-percent case transportation	84	112	209	357	445
Delivered costs	284	381	574	862	1,128
Constant 1980 dollars per ton:					
Wood	80	81	73	71	70
Energy	37	39	36	33	31
Chemicals	20	20	20	19	20
Labor	41	39	34	29	25
Other materials	22	23	21	21	21
Cost on U.S. ships	194	169	174	182	162
Base case transportation	84	76	78	81	74
20-percent case transportation	84	82	89	97	91
40-percent case transportation	84	84	105	121	109

APPENDIX B.—COST ANALYSIS OF UNITED STATES AND FOREIGN FLAG SHIPS

SUMMARY

Our analysis of U.S.-flag cargo preference proposals indicates that:

Shifting to U.S.-flag vessels would add substantially to the paper industry's transportation costs for export shipments. At present, almost all of the export shipments move in foreign-flag vessels of special configuration operated by proprietary fleets or by contract carriers not engaged in regularly scheduled service (see Exhibit I). Rates for these services are established in a highly competitive short-term contract market.

The paper industry's major exports of market pulp, kraft linerboard and bleached kraft paperboard are shipped as "neobulk" cargoes without packaging. Thus, they require special handling and are best facilitated by "open-hatch" type ships equipped with gantry cranes. No vessels of this type exist in the U.S.-flag fleet, hence the introduction of cargo preference would create an artificial imbalance between the demand and supply of this special type of vessel. Under these conditions, U.S. shipowners would certainly charge a premium rate for transportation services. This would increase the delivered prices of U.S. paper products and reduce U.S. market share in foreign markets. Exhibit III shows representative ocean freight rates for the paper industry's major exports. These account for 18 percent to 26 percent of the delivered prices of these products, based upon prices published in Official Board Markets. Consequently, any movement in transportation costs up or down would have a significant effect upon export volumes.

U.S.-flag vessels are necessarily dependent on direct federal subsidies designed to offset the higher costs of U.S.-constructed and U.S.-manned vessels. Our analysis shows that without subsidies the operating cost of a U.S.-flag vessel is $95.82 per ton of product carried (see scenario A). The cost of a foreign-flag vessel is $47.31 per ton carried (see Scenario E). On a cost-pass-through basis alone, this would increase the cost of shipping a ton of kraft linerboard between the U.S. Gulf coast and Rotterdam by 53 percent. Our analysis is based on the capital and operating costs of new "open-hatch" type vessels which are specially designed and constructed to carry forest products exports well into the 1990's.

Even with subsidies, U.S.-constructed and U.S.-manned vessels are not competitive. Our analysis shows that the cost of a U.S.-flag vessel receiving operating subsidy is $77.27 per ton carried (see Scenario B). The cost of a U.S.-flag vessel receiving both construction and operating subsidies is $50.40 per ton carried (see Scenario C). A vessel constructed in a foreign shipyard and operating under the U.S. flag with no operating subsidy, has cost of $64.90 per ton carried (see Scenario F). The only type of U.S.-flag vessel which is competitive is a foreign-built ship eligible for operating subsidy under current temporary authority of the 1981 Reconciliation Act. The operating cost of this type of vessel is $47.80 per ton carried (see Scenario D).

The cost saving provisions of the Boggs bill will not improve the cost disadvantage of U.S. vessels. The bill envisions a 15 percent reduction in U.S. shipyard costs and reduced manning levels on U.S. vessels. Given these conditions, an unsubsidized U.S. vessel's operating costs are estimated to be $83.77 per ton carried (see Scenerio G).

Cost differentials are only a part of the story. The total transportation cost to the industry would be affected by:

(a) The creation of an artificial demand for U.S.-flag vessels that will exceed supply for a considerable period of time. This could result in rate increases that exceed cost increases by a considerable margin. At the very least, a long phase-in period would be required to insure an adequate supply of U.S.-flat vessels suitable for servicing the forest products trade.

(b) The inefficiencies resulting from the inability of U.S. shippers to take advantage of the cost benefits obtained from least-cost routing. Cargo preference would prevent shippers from utilizing the benefits inherent in scheduling shipments without regard to the availability of a specific type of U.S.-flag ship.

(c) The excess capacity in foreign-flag ships resulting from the build-up of U.S. capacity could provide a significant transportation cost advantage to foreign producers.

The paper industry has taken note of the differences in the charter rates for ships operating in open access, free markets as compared to the distorted rates for ships operating in a captive market subject to cargo preference. The prohibitive costs of cargo preference are exposed by examining historical rates under the Cargo Preference Act of 1954, which legally requires that at least 50 percent of government generated cargoes be carried in U.S.-flag vessels. In the case of foreign-aid grain shipments, rates for U.S.-flag vessels ranged in extreme cases between 253 percent and 317 percent of the comparable foreign rates. Even after adjusting for the higher capital and operating costs of the U.S. ships involved, an extra profit averaging about 35 percent of the U.S. costs was extracted by U.S.-flag ships in these captive market trades (see Exhibit IV). The U.S. Office of Management and Budget estimates that the additional costs to the Federal Government of current cargo preference programs is $400–$500 million a year.

The U.S. pulp, paper and paperboard industry has been making significant investments averaging $6 to $7 billion a year in order to make itself cost competitive in both U.S. and foreign markets. Its productivity performance ranks among the highesty in the manufacturing sector. Its export potential has never been better. An arbitrarily legislated increase in transportatin costs for the U.S. industry would undo all of the benefits and efficiencies derived to date.

The Appendix to this paper includes a description of the major maritime subsidy programs and a comparison of U.S. and foreign ship construction and crew costs.

EXHIBIT I.—U.S. PAPER INDUSTRY WATERBORNE EXPORTS AND IMPORTS CARRIED IN NONLINER U.S.-FLAG SHIPS (1980)

	(Thousands of long tons)			Value (in millions of dollars)		
	Total	U.S.-flag	U.S. percent	Total	U.S.-flag	U.S. percent
Exports of:						
Pulp and waste paper	2,057	27	1	935	12	1
Paper, paperboard and paper products	1,582	18	1	592	9	2
Imports of:						
Pulp and waste paper	227	38	17	93	17	18
Paper, paperboard and paper products	1,354	231	17	551	100	18

Source: Office of Trade Studies and Statistics, Maritime Administration, U.S. Department of Transportation.

EXHIBIT III.—1981 OCEAN FREIGHT RATES

[Dollars per metric ton]

To—	From—	Kraft linerboard	Bleached paperboard	Pulp (rolls)	Pulp (bales)
United Kingdom	U.S. east coast			79.00	60.00
Do[1]	do	73.00	154.00		110.00
Do	U.S. gulf coast	78.00	89.00		64.00
Do	U.S. west coast	81.55			62.55
Genoa	U.S. east coast			79.00	60.00
Do[1]	do	104.00	104.00		104.00
Do	U.S. gulf coast	85.00			70.00
Do	U.S. west coast	80.00			62.00
Rotterdam	U.S. east coast			85.00	71.50
Do[1]	do	64.00	138.00		93.00
Do	U.S. gulf coast	76.00	85.00		59.00
Japan	do	115.00	138.00		120.00
Do	U.S. west coast	65.00	90.00		48.00
Do[1]	do	97.00	97.00		71.00
Australia	U.S. gulf coast	140.00	170.00		135.00
Do	U.S. west coast		135.00	115.00	90.00
Do[1]	do	184.00	151.00		164.00

[1] Published conference rates for container units. All other figures shown are actual bulk shipment rates. Figures do not include wharfage and handling charges.

Source: Gottesman-Central National Corporation and Company Data Submitted to American Paper Institute.

Senator **Trible**. I thank you very much. I will be sure to tell my distinguished colleague from Alaska that his amendment makes a useful but limited contribution.

Mr. **Nemenz**. Mr. Chairman, first I hope you will forgive the quality of my voice. I have been carrying a cold, and I believe it has settled in my vocal cords.

Senator **Trible**. We appreciate your being here.

Mr. **Nemenz**. My name is Albert W. Nemenz, and I am accompanied this morning by Mrs. Connie Holmes, vice president with the National Coal Association and executive secretary of the Coal Exporters Association of the United States.

I am vice president of John McCall Coal Co. John McCall is a coal producer and exporter with mines in Maryland, West Virginia, and Virginia.

My company mines 3.4 million tons annually in Virginia. Also we are responsible for an additional 0.5 million tons purchased from Virginia producers.

We export about 5 million tons annually through ports on the east coast and gulf to customers in more than 20 countries in Europe, South America, and the Far East. Of the 5 million tons exported about one-half of that total is exported through the piers at Hampton Roads.

I might also call attention that McCall controls and leases almost 27,000 acres of coal land in the State of Virginia.

I am vice chairman of the Coal Exporters Association which represents companies exporting over 90 percent of the coal shipped from the United States to destinations overseas.

Today I am also representing the CEA parent organization, the National Coal Association, which represents coal producers, sellers, and other organizations associated with the American coal industry. We appreciate this opportunity to discuss the effects of S. 1624, e Merchant Marine Revitalization Act of 1983 on the coal export- g industry.

Senator Trible. Before you begin your substantive discussion of the bill, let me interrupt. There is another vote on the Senate floor, and there is just a few minutes remaining.

So I am going to recess this hearing for just a few moments. I will rush over to vote and I will be right back. I appreciate your indulgence.

[Recess.]

Senator Trible. Ladies and gentlemen, let's reconvene this hearing. My apologies. I would invite you to continue your testimony.

Mr. Nemenz. Thank you, sir.

The United States is the world's largest coal producer and exporter. The 100 million tons exported annually from this country provides employment for over 35,000 miners and equally as many workers in related and supporting industries. Coal exports add over $6 billion to America's balance of trade position.

Cargo preference requirements would add significantly to the costs of U.S. coal overseas causing a sharp loss in the current export market and inhibiting the U.S. coal exporters' ability to participate in the world coal market of the future.

S. 1624 would increase costs of shipping U.S. coal to our customers abroad.

Currently U.S. coals are sold primarily FOB the port. Our customers arrange all ocean transportation. Coal is a price sensitive commodity and is shipped at world freight rates under single or long-term charter.

Coal shipped under a preference program such as that proposed by S. 1624 would be shipped under a rate structure dictated by the U.S. Government and covering the higher cost of both construction in American shipyards and operation by American crews. Both are more expensive than our foreign counterparts.

In no case would these guideline rates equate with competitively set world market rates. Various estimates of the differentials between foreign rates and U.S. costs have been made and probably none are correct.

The Center for Naval Analyses compared the cost of a U.S. build with a 15-percent cost reduction, not 20 percent as in S. 1624, with a typical foreign new build. The estimated charter rate for a U.S. flag, 60,000 dead weight bulk carrier is $18.49 per ton, for a similar foreign flag, $9.52 per ton, a difference of $8.97 a ton.

Assuming these differentials are an adequate representation of actual cost differentials, use of U.S.-flag vessels would add approximately 15 percent to the cost of U.S. coal overseas if that coal is now averaging $60 per ton. The increase in cost will cause a loss of U.S. coal markets abroad.

Although precise estimates of the loss in coal trade are difficult to make, even a 15-percent increase in the landed cost of coal would cause a sharp drop in coal exported. The recent report prepared by the Congressional Research Service concluded that given price increases of this magnitude 15 to 20 million tons of our export market will be lost.

Several of our major customers including the French and the Italians have publicly stated that they will purchase no U.S. coal if cargo preference requirements and regulations are enacted. Our customer groups notably the Japanese have expressed concerned over this proposed legislation and have refrained from conclusion of long-term supply agreements until U.S. future shipping policies can be clarified.

Minimum estimates of tonnage lost equates to a loss in employment in the coal field of almost 9,000 miners in 1985 and 12,000 miners in 1990 and 1995. Total employment loss in the coal and related industries would be approximately 18,000 in 1985 and 24,000 in 1990 and 1995. These numbers may well escalate.

In 1990 employment losses in coal and related industries alone would be equal to almost 90 percent of the 27,000 jobs that proponents of this legislation claim will be created by cargo preference.

Clearly cargo preference will create employment in one industry at the heavy expense of unemployment in other export and important industries and in the long run will result in an overall net reduction in employment.

Cargo preference imposes Government regulation on an otherwise free trade market.

The bulk charter market unlike the liner trade is an unregulated free trade market. Rates are set on the basis of competition, not regulation.

Compliance with the rate and regulations imposed by S. 1624 would be difficult for the U.S. exporter to meet, would introduce an element of uncertainty and risk in dealing with American coal suppliers. These uncertainties will cause as large a market loss as the higher rate structures.

As pointed out by the Congressional Research Service guideline rates are difficult to set and will in themselves create an inefficient and costly regulatory process, and this flies in the face of the current efforts to reduce regulation in business and trade. Retaliatory measures can be expected from our customer countries.

We are cognizant of the provisions of title 2 and 3 in S. 1624 which attempt to lower costs of shipping on U.S.-flag vessels. These provisions are unfortunately not enough to offset the detrimental effects of the mandatory cargo preference program.

Title 2 which provides the shipper a 10 percent tax credit equal to the differential between U.S. flag and foreign flag rates will not begin to lower the cost enough for the U.S. exporter to remain competitive, and while title 3 offers some tax relief to the ship builders there is no guarantee that any of the possible cost advantages made available to shipyards will be passed to the shipper in the form of lower rates.

In conclusion, we emphasize that we are sympathetic and agree with the objective of S. 1624; namely, a strong U.S. merchant marine. We would support legislation to reform maritime regulatory procedures to give tax incentives to reduce U.S. construction for operating costs or other legislation designed to bring the cost of American vessels in line with the cost of foreign flag vessels.

If the U.S. carrier fleets would compete in the world shipping market, there would be no need for a cargo reservation system. However, S. 1624 would place the economic burden of our merchant marine on a relatively few exporters and importers of bulk commodities and most significantly on their overseas customers negating any private economic effects this legislation might have.

We would be pleased to answer any questions, sir.

[The statement follows:]

STATEMENT OF ALBERT W. NEMENZ, JNO. MCCALL COAL CO., INC., ON BEHALF OF THE NATIONAL COAL ASSOCIATION AND THE COAL EXPORTERS ASSOCIATION

Mr. Chairman, my name is Albert W. Nemenz. I am Vice President, JNO. McCall Coal Company. JNO McCall is a coal producer and exporter with mines in Maryland, West Virginia, Virginia, Kentucky, and Pennsylvania. My Company mines 3.4 million tons annually in Virginia and exports 5 million tons through ports on the east and gulf coasts to customers in more than 20 countries in Europe, South America, and the Far East.

I am pleased to have the opportunity to appear before you on behalf of the Coal Exporters Association (CEA) which represents companies exporting over 90 percent of the coal shipped from United States mines to destinations overseas. I am also representing the CEA's parent organization, the National Coal Association, which represents coal producers, sellers and other organizations associated with the American coal industry. We appreciate this opportunity to discuss the reasons that we oppose S. 1624, the Merchant Marine Revitalization Act of 1983.

The United States is the world's largest coal producer and exporter. Although 1983 exports have declined for economic reasons, in 1982, we exported over 105 million tons to customers in 40 nations. Coal exports added over $6 billion to America's balance of trade and provided employment for over 35,000 miners and equally as many workers in related and supporting industries.

The high cost of uncertain availability of other fuels—oil, uranium, natural gas—have combined to make coal the economical fuel of the future. As coal use worldwide increases by some 3-4 percent per year thru the end of this century, there could be unparalleled opportunities to increase the export of United States coal. But, increased costs and regulatory problems which would result from cargo preference proposals included in S. 1624 now being considered by this Committee would ensure that the U.S. coal exporter would be left to fight for a rapidly diminishing share of the world coal market.

If the United States exporter were forced, through a cargo preference requirement, to ship a designated percentage of coal exports on U.S. flag vessels, American coal will become the choice of absolute last resort. Over the long term the U.S. position in the world market will erode. There will be reduced investments, fewer employment opportunities, and a smaller contribution towards our nation's balance of payments.

I. REVIEW OF S. 1624

S. 1624, the Merchant Marine Revitalization Act of 1983 would:

Require that each importer or exporter of bulk commodities whose foreign trade business exceeds $1 million annually, ship a specified percentage of its cargo on

American built and manned vessels. This percentage increases from 5 percent, in the year following enactment of the bill to 20 percent, 15 years after the date of the law.

Require that each exporter/importer certify compliance or be faced with civil penalties and forced to make up "deficiencies" in shipments in the subsequent year. It is possible to apply for a waiver, but conditions and procedures for such a waiver are not well defined.

Require development of a schedule of guideline rates which would be "fair and reasonable", would take a required 20 percent construction and operating cost reduction into account, but would still be based on costs plus a reasonable operating profit (i.e. would not necessarily be related to the rates determined in the world shipping market).

Provide that shipyard income generated through ship construction or repair could be deposited in a tax deferred account to be used solely for shipyard improvements.

Allow the shipper of export goods or the importer of goods a tax credit equal to 10 percent of the differential between the going world market freight rate and the artificially imposed guideline rate applicable for shipments in U.S. flag vessels.

II. THE UNITED STATES AND THE WORLD COAL MARKET

The United States is the world's largest coal producer and exporter. Maintenance of this position in the very competitive market that exists today is by no means a certainty despite the perceptions generated during the coal boom of 1980 and 1981. Recent trends in coal use and trade have raised questions about our position of leadership in the future world coal market unless the United States can offer coals that are price competitive with other exporters—Australia, Canada, South Africa, Columbia, Russia, China.

A. Trends in coal use and trade

Coal use in the major industrialized nations (the OECD nations) increased by over 6 percent per year 1979-1981 due primarily to the substitution of coal for more expensive and unreliable oil in utility boilers and major industrial installations. The share of coal generated electricity in OECD nations jumped from 38 percent of total in 1978 to almost 45 percent of total in 1981.

This sharp increase in coal use (almost 100 million short tons outside of the United States) due to the sharp increase in oil prices and the political unreliability of oil suppliers, caused a corresponding jump in coal traded in the world market. Demand for steam coal increased by over 50 percent in just 18 months time (1979-1981), total coal traded increased by over 53 million short tons or by almost 20 percent during the same time period. Will this trend continue? Forecasts made in the shadow of the 1979 increase in oil prices said yes—demand for steam coal in the world market would increase at a 7-12 percent annual rate through the end of the century. Forecasts made today, looking at the realities of lower economic growth, higher energy prices, increased energy efficiencies and conservation suggest otherwise. GNP growth rates in OECD Europe are expected to average 1.9 percent through 2000 (versus an average 4.7 percent 1960-1973) and in Japan will average 3.3 percent (versus 10.4 percent 1960-1973 and 4.4 percent 1974-1981.) Average increases in energy use will be marginally lower.

Preliminary forecasts prepared by the Export Subcommittee of the National Coal Association Economics Committee show that world steam coal use will increase at less than 6 percent per year and import requirements will increase, on an average by just less than 7 percent per year through 1995. World steam coal import demand should reach a total of 160 million tons in 1985, 234 million in 1990 and 312 million in 1995. (These forecasts are approximately 12 percent lower than the forecasts of approximately 6-8 months ago.)

Most of the increase in demand for steam coal will be for use in utility boilers. Industrial use of coal will not increase appreciably before 1990. Demand for imported steam coal will be greatest in Europe.

Demand for metallurgical coal on the world market will stabilize at approximately 155 million tons annually.

WORLD COAL TRADE—1980–95

[In million short tons]

	1980	1985	1990	1995
Steam	111	160	234	312
Met	155	155	157	160
Total	266	315	391	472

B. The United States share of the world coal market

The United States was a prime beneficiary of this increase. Steam coal shipments to overseas destinations increased from 2.6 million tons in 1979 to 33 million tons in 1981. Simultaneously, exports of metallurgical coal soared from 43 million tons to 60 million tons. The reasons for the increase in trade and the very important role that United States coals played in meeting this increase are well documented and include: An increase in the demand for steam coal due to the aforementioned short term decision to convert utilities from oil firing to coal and to quickly convert large industrial fuel users to coal wherever possible, coupled with; the inability of domestic, i.e., EEC, producers to keep pace with increases in demand; unavailability of coal from Australia and Poland due to strikes and political problems which forced a demand for "replacement" coal.

The rate of increase in demand for coal in the world market and from the United States in particular slowed appreciably in 1982. World recession, coupled with increased energy efficiencies slowed the increase in use of electricity; steel and thus coke production declined, oil became readily available and the immediate urgency to convert industrial boilers (and additional utility boilers) disappeared. Coal traded on the world market did not increase in 1982 and is expected to decrease in 1983. Simulaneously, new coal production and transportation infrastructure planned and started during the "Boom of 1980" began to come on line. Australia and Poland returned to more normal production levels.

The resulting supply glut on the coal market and resultant price pressures, have caused United States coal producers, transporters, port authorities to relook the future for coal use and trade and to reconsider expansion and investment plans made in the hayday of 1980.

In the future, overall demand for energy will not increase at the same high rates as in the past. Structural changes in energy economics, increased efficiency in energy utilization and conservation practices have caused a drop in the amount of energy required to produce each unit of GNP (or GDP). The "total energy requirement per unit of GNP" ratio has fallen 13 percent since 1973 and is expected to decline another 10 percent by 1990. At the bottom line, when the world economy begins to improve, energy consumption—and thus demand for fuels including coal—will not increase apace.

Lower expectations for world coal use coupled with increased supply capability worldwide, have a direct effect on expected levels of U.S. coal exports.

The current preliminary forecast is as follows:

U.S. COAL EXPORTS OF COAL

[In millions of short tons]

	1980	1985			1990			1995		
		Low	Med	High	Low	Med	High	Low	Med	High
Steam	28	32	40	47	44	56	69	56	80	98
Met	63	50	56	67	50	60	69	50	60	69
Total	90	82	96	114	94	116	138	106	140	167

As can be seen, given certain conditions—poor economic conditions, low growth in the use of coal, availability of coal from competing nations and high cost of U.S. coal due to high rail costs, high shipping costs—exports of U.S. coal could just reach 1981 levels by 1995.

On the other hand, if economic conditions improve, and coal use increases, the United States could increase exports to as much as 167 million tons by 1995. But, given the expected supply capability and price structure of competitive countries, attainment of these higher forecasts will require that costs of coal from the United States can be competitive or nearly competitive. United States coal exports cannot support artificial price increases such as those that would result from S. 1624 without substantial market losses.

III. S. 1624 WOULD INCREASE COSTS OF SHIPPING UNITED STATES COAL

There have been numerous examples of the differentials in construction costs and freight rates between a U.S.-flag vessel and one built and operated under the flag of a foreign country.

Current rates quoted for grain shipped on U.S.-flag vessels under the PL 480 program are $50 or more per ton higher than grain shipped over similar routes and in similar sized, but foreign flagged, vessels.

Coal purchased by the Defense Fuel Supply Corporation (DFSC) for use in West Germany, as well as coal purchased by Egypt under an AID program must be shipped in U.S.-flag vessels. The freight rates under which these coals are shipped are substantially higher than world market rates.

The DFSC uses foreign flag rates when evaluating bids, but ships at the higher U.S.-flag rate. (The taxpayer assumes the difference). In 1982 foreign flag rates used for evaluation purposes were $14 per metric ton on a Hampton Roads—Rotterdam Run. Actual shipping costs on American flag vessels were over $36 per metric ton—$26 per ton more than comparable foreign flag. Rates quoted for AID shipments to Egypt range from $49 per metric ton to $50.25 per metric ton on U.S.-flag vessels, as opposed to quotes of $14.85 to $15.95 for foreign flag.

The American flag fleet is old, small, inefficient. These factors undoubtedly account for a portion of the wide difference in rates. There are other reasons for the differentials. Operating costs are 2½ to 4 times the costs of European crews, and for new builds, construction costs of vessels in American shipyards are approximately three times the cost of foreign builds.

Because compliance with S. 1624 would require a substantial number of new builds, a more accurate comparison of costs (not rates) should be made on the basis of a newer fleet.

Data developed by the Federation of American Controlled Shipping (FACS), comparing both construction and operating costs of new U.S. builds and 5 year old foreign flag vessels, show that cost (not rate) differentials between United States and foreign flag vessels range between $32 and $38 per ton.

But, S. 1624 requires that American ship construction costs be reduced by 20 percent. NCA recalculated estimated costs by assuming that capital costs and operating were 20 percent lower than the cost levels presented by FACS. Cost differentials are still substantial from $26 to $30 per ton. These differentials if completely passed thru would raise the price of U.S. coal in Rotterdam by almost 50 percent. Clearly the United States would not participate in the world coal market if either our customers or the coal producer were forced to absorb all or part of this additional cost.

	60,000 deadweight tons			90,000 deadweight tons			120,000 deadweight tons		
	United States	Foreign	Cost difference	United States	Foreign	Cost difference	United States	Foreign	Cost difference
Estimated cost per:									
Long ton	$40.63	$6.08	$34.54	$38.75	$6.60	$32,15	$43.38	$5.46	$37.92
With 20 percent reduction	32.50	6.08	26.42	31.00	6.60	24.40	34.71	5.46	29.25

Source.—Statement of Philip J. Loree, Chairman, FACS, Before the Subcomittee on Merchant Marine and Fisheries on H.R. 1242, May 5, 1983, Appendix B, table 5.

Cost of new build U.S. vessels are compared to costs of 5 year old foreign builds due to the current surplus capacity in the world bulk fleet.

The Center for Naval Analysis compared the cost of a U.S. new build (with a 15 percent cost reduction—not 20 percent as in S. 1624) with a typical foreign new build. The estimated charter rate for a U.S. flag 60,000 dwt gearless bulk carrier is $18.49 per ton, for a similar foreign flag $9.52 per ton—a difference of $8.97. Assuming these lower differentials are an adequate representation of actual cost differences, use of U.S.-flag vessels would add approximately 15 percent to the cost of U.S. coal overseas.

Although it is impossible to estimate exactly what the U.S. flag rates will be, it can be concluded that these rates will be significantly higher than comparable foreign flag rates and as discussed previously, will add significantly more to the landed cost of U.S. coal to our overseas customers than the 1 to 2 percent that the proponents of cargo preference legislation assert. The proponents' estimate is incorrect for several reasons:

The cost estimates are based on a 144,000 dwt restricted draft, broad beam vessel built in series and serving only the Hampton Roads, Va.—Rotterdam run.

The vessel design upon which the estimates are based is a MarAd conceptual design. There has been no actual experience in constructing such a vessel in American yards. Actual costs, if such a vessel were constructed, could be sharply higher than the Maritime Administration estimates.

The estimates assume that there would be a great enough trade between Rotterdam-Hampton Roads to warrant use of a series of vessels on a "shuttle" basis. In reality, the U.S. ships coal from a least 15 ports to some 50 destinations. If 20 percent of the Hampton Roads-Rotterdam trade were to go on this new vessel, only 1 vessel would be required. (This also assumes that there would be sufficient market requiring deliveries on such a schedule to warrant a one ship shuttle trade.)

The cost estimates assume that the higher costs of using U.S. flag vessels on 20 percent of the trade will be spread or averaged out over 100 percent of the trade. This is an assumption that would be realistic only if coal of few grades were shipped by few suppliers to few customers utilizing only one or two origins and destination ports. Instead, 50 or more suppliers ship over 100 grades of coal from 15 or more U.S. ports to hundreds of customers worldwide. The higher costs of using U.S. flag vessels, which are more than the theoretical cost differences, would not be averaged over all the trade but would have to be absorbed by the American producer if he wished to retain his market.

The estimates assume use of long-term charter party arrangements. Even assuming a c.i.f. sale could be made (and this is not the practice in the trade) few, if any, coal exporters ship sufficient volume of the same qualities of coal on such a regular schedule, to utilize such a long-term charter arrangement. Charters would necessarily continue to be on a spot, single voyage rate.

IV. An increase in the delivered costs of U.S. coals will cause a loss of the U.S. coal markets abroad

Coal export markets will be lost if costs increase due to cargo preference requirements such as included in S. 1624.

As discussed previously, the U.S. can play an important role in the future world coal market, if U.S. coal is price competitive.

Although precise estimates of the loss in coal trade are difficult to make, even the 15 percent increase in the landed cost of coal (derived from basic data in the CNA analysis cited above) would cause a sharp drop in coal exported. Because an increase in the delivered price of coal regardless of the reason for the increase will have the same market effects, data from a recent report by the Department of Energy on the effects of rail rate increases can be used to estimate the effects of increased shipping costs in the market for U.S. coal.

Using the data from that report, it can be concluded that a 15 percent in the landed price of U.S. coal (equivalent to a $9.00 increase in shipping charges) will result in an 18.6 million ton loss of market (a 17 percent drop) in 1985 and a 24 million ton loss in 1990 and 1995. These losses are the minimum losses that will be experienced.

Several of our major customers, including the French and the Italians have publicly stated that they will purchase no U.S. coal if cargo preference requirements and regulations are enacted. Other customer groups, notably the Japanese, have expressed concern over this proposed legislation and have refrained from conclusion of long term supply agreements until the U.S. future shipping policies can be clarified.

A minimum of 1 billion dollars export sales will be lost to the United States in 1985 and $1.5 billion in 1990.

Minimum estimates of tonnage lost equates to a loss in employment in the coal fields of almost 9,000 mines in 1985 and 12,000 mines in 1990 and 1995. Total employment losses in coal and related industries would be approximately 18,000 in 1985 and 24,000 in 1990 and 1995.

In 1990, employment losses in coal and related industries alone would be equal to almost 90 percent of the 27,000 jobs that proponents of this legislation claim will be created by cargo preference! Clearly, cargo preference will create employment in one industry at the heavy expense of employment in other export and import industries and, in the long run, will result in a total reduction in employment.

V. S. 1624 would establish guideline rates which are costly and difficult to establish and administer

S. 1624 proposes establishment of maximum guideline rates for each voyage, commodity, route. These guidelines rates, while supposedly reflective in some way of world shipping market conditions, must also be "fair and reasonable" and reflect the "current cost, including reasonable profit" of constructing various classes of ships in U.S. shipyards.

As vessel construction costs in U.S. yards are at least 3 times that in foreign yards, it is obvious that even with a 20 percent cost reduction, any guideline rate would be far higher than a comparable world market rate set in a market where supply of bulk vessels exceeds demand by a least percent.

Guideline rates would be difficult to establish and administer. In fact, a far simpler program administered by MARAD from 1955–71 for all government-impelled preference cargoes proved to be unworkable and was discontinued. The shipping market is far more complex today than in 1971, and changes at times on an hourly basis. Establishment of such rates would require a large and expensive bureaucracy and, although the purpose of guideline rates is, ostensibly, shipper protection, would result in rates that are neither fair nor reasonable to the shipper, especially if costs plus profit are to be the standard used.

VI. Cargo preference imposes Government regulation on an otherwise free trade market

Regulation and enforcement introduces uncertainty and risk in dealing with American coal suppliers. Requirements that all exporters with trade of more than $1 million per year would be impossible to meet. One cargo of coal is worth more than $1 million and thus all coal exporters would be forced to meet these artificial requirements. However, due to the diversity of shippers and markets, compliance by all coal exporters would not be possible.

Alternative coal suppliers are available—from Poland, South Africa, Australia, Canada, China. Coal customers, faced with sharply higher costs, uncertainty and risk in dealing with United States coal suppliers will simply go elsewhere unless in times of emergency.

The inefficient regulatory process—which flies in the face of the efforts of Congress to reduce regulation in business—will be time consuming and costly to both the shipper and the American taxpayer.

Proponents of this legislation state that the shipping market is not a "free trade" market. However, the study by the Center for Naval Analysis disputes this statement. Bulk shipping is contract shipping and according to CNA: "Competition in contract shipping is almost entirely price oriented. The lowest bid gets the contract and price fluctuations can be quite drastic. . . . U.S. contract shipping cannot quote competitive rates in the world market and, unlike liner shipping, is not protected by conference rates."

VII. Cargo preference in S. 1624 is not similar to the cargo preference laws of other countries

It is certainly a fact that many other countries have cargo preference laws or other means of subsidizing their merchant marine. Indeed, the United States has a cargo preference law covering cargoes financed or purchased by the U.S. government. However, many countries' cargo preference laws cover only imports—in which case the population at large bears the cost of the program. In other cases the nation subsidizes the fleet through construction loans or other specialized payments. In all cases cargoes shipped under preference laws are shipped at rates prevailing in the world market. The differences are made up by the taxpayers in the respective countries as matter of policy.

S. 1624 takes the opposite approach. Cargoes would be shipped at artificially high rates and costs would be borne by the workers, producers and consumers of bulk commodities. In effect, S. 1624 asks the foreign customer of American goods to subsidize the U.S. Merchant Marine.

There are no other coal exporting nations which impose cargo preference requirements on coal exports. There are selected countries however, which impose cargo preference on coal imports or on other imports which internalizes the costs of that Nation's merchant Marine.

VIII. Summary

In summary, enactment of S. 1624 would increase costs of American coal to our overseas customers, introduce regulation in an otherwise free trade market and result in loss of markets for United States coals which in turn translates into unemployment, loss of investment and production capacity, loss of tax revenues.

The coal industry recognizes and agrees with the objective of a strong Merchant Marine. But, the costs of a strong Merchant Marine should be borne by the U.S. public and should not be placed on the backs of a relatively few exporters or importers of bulk commodities.

We would be pleased to answer any questions you might have.

Senator **Trible**. We thank you for your thoughtful and detailed testimony, gentlemen. One advocate of this legislation has suggested that the terms of this bill should apply only to imports and not exports.

How would you evaluate the legislation if it was made to apply only to imports and not exports?

Mr. **Nemenz**. If I may answer that, we have analyzed S. 1624, that is the National Coals Association and the Coal Exporters Association, from the standpoint of exports because it becomes a marketing situation involving the exports of coal produced in the United States. We have not created a definitive position that I could present to you today.

We would be willing to go into this study if time permits, and we hope it would, to create a position from the standpoint of its application to imports only.

Senator **Trible**. It would certainly seem to respond to your concern that the legislation is placing an unfair burden on a share of the economy, namely, your industry, and the production and export of coal and that rather the burden for a strong maritime presence should be borne more equitably across society.

Mr. **Heine**. I would just like to add to that, Senator, if I may that we would be opposed to that as a matter of principle inasmuch as we are unused to the concept of cargo reservation. We feel it would trigger retaliatory moves by importing countries and, three, we would be concerned about the availability of highly specialized bottoms for our vessels if we were to forego the inbound portion of that cargo.

In other words, if there were a blockage of imports it would be to our detriment in shipping outbound. Incidentally, Senator Inouye has apparently asked several questions including this one. We plan to reply to it in writing.

Senator **Trible**. Any number of Senators may propound questions after they have had a chance to review your testimony, and we would ask you to respond to those if you would.

One final question to the National Coal Association, in your testimony you say the bill would add 15 percent to the coal prices. Isn't that 15-percent increase on the 20-percent of coal shipped in U.S. ships, and if it is then the figure would have to be divided by 5 to be accurate or a 3-percent increase in the export of coal prices. If that is indeed the case your figure at 3-percent would be far more consistent with the cost analysis done by the SIU by MarAd and by CNA.

Mrs. **Holmes**. I think, Senator, that we disagree with the way the analyses by both CNA and the analysis that was done in support of H.R. 1242, the counterpart bill on the House side, was accomplished. Specifically we disagree with applying the cost differentials that would be applicable to that 20-percent of cargo to 100-percent of the export shipments because we do feel that, number one, because of the nature of our trade, because of the very wide variety, the number of shippers, the cargo shipped, et cetra, it would be impossible to spread the effects, if you will, on all of the trade or equally over all of the trade which these analyses assume.

We are assuming and believe that the cost of all of the exports would be raised up to that guideline rate and not have that guideline rate spread or the differential spread among all of the exports. So we do disagree with the way that the analyses had been made.

Senator **Trible**. But your analysis is that you would have a 15-percent increase in the 20 percent of the coal shipped in U.S. bottoms. That is the basis of your analysis.

Mrs. **Holmes**. Yes.

Senator **Trible**. But you assume further that then would become the cost of rates across the board. OK. We thank you very much.

The next witness is Philip Loree, chairman of Federation of American Controlled Shipping. We thank you for being here and we appreciate, Mr. Nemenz, your pointing out that Virginia is a producer of coal.

I would appreciate that and I would say for the sake of our other distinguished witnesses that Virginia is also a producer of forest products, and we are proud of that as well.

Mr. Loree, it is good to see you, sir.

STATEMENT OF PHILIP J. LOREE, CHAIRMAN, FEDERATION OF AMERICAN CONTROLLED SHIPPING, ACCOMPANIED BY EUGENE A. YOURCH, EXECUTIVE SECRETARY; AND STEVEN M. MOODIE, WASHINGTON REPRESENTATIVE

Mr. **Loree**. I have with me Eugene A. Yourch, our executive secretary, and Steven Moodie, our Washington representative, both with extensive backgrounds in the maritime industry. I am going to submit my statement for the record and try to summarize it.

Senator **Trible**. We thank you for your patience. You have been here for a long time.

Mr. **Loree**. I have been here for both days and I think it is only appropriate that I should end it up.

I did point out in the House hearings that I am the only living witness who has appeared at every cargo preference hearing that the House or Senate has held over the years. So I am keeping my string intact today. I was worried for a moment.

I am going to go briefly over two points that really need to be clarified. One is to draw a sharp line between bulk shipping, commercial bulk shipping, which this bill is talking about, and Government-owned cargos or Government-impelled cargos and liner shipping.

To put it all in some perspective, basically the United States has one-third of all the world's oceanborne trade and 92 percent of that trade is bulk shipping.

We have come here today with a very unique perspective. We are in the business. Our members are the American companies that are in international bulk shipping. We represent roughly 10 percent of the world's bulk tonnage.

We know the business. Our members also operate U.S.-flag ships. We know that business, and we know costs. We have a cost study which I would like to discuss first, because there has been quite a bit of concern shown by this committee as to what the added cost might be.

I think you will find that we are the only group that has appeared before you which has tried to quantify the whole cost impact, not just gypsum or petroleum or coal or what. We have looked at both exports and imports. We have used a methodology that has some sense to it.

We have tried to take into account factors that some of the other studies that we have looked at have not. We have tried to look at every trade and every bulk export and import, and by applying a realistic formula based on laden ton miles per vessel have been able to estimate what we believe would be the type of fleet needed over the course of the 16 years to bring this proposal into full effect.

As to the other studies, I do agree with Mr. Trible that the CNA study is dispassionate. However, I think that they spent a bit too much time in the tank and did not get outside, so that they did not come out with some realistic numbers.

When we first obtained the CNA study, we tried for several weeks to get the backup data, items that are cited like unpublished, unclassified memorandums that we still have not been able to receive. Poten and partners, the firm that did work for CNA, would not give us any of the backup material.

But just looking at some of the CNA numbers, I think you have to appreciate that CNA is saying that by the time the 20 percent figure is reached the cost of this bill, incremental cost, is $15 billion. That is a lot of money.

We say that the cost will be $93.9 billion by the time the magic 20 percent is reached. Looking at the difference between the two studies, we are remarkably close in some respects.

For one thing, the capital cost per dead weight ton of this tonnage to be built, CNA projects $1,473 a ton and we have it at $1,458. That is reasonably close.

The CNA operating cost is incredibly low. To estimate that an American crew could be employed at $1.7 million a year is so unrealistic it almost borders on being comical. That number, I think, was applicable back in 1972. I do not know where they got these numbers.

I suspect that they went over to some of the persons at Marad who live in their own little world. While they are paying out operating subsidies at a rate of $3 million per ship per year, they estimate that the cost differentials will be minor.

It just is not so. Another big difference is in looking at where the import and export levels are going to go over the next 16 years. I confess that this involves a little bit of crystal balling. We tried to rely on the best estimates we could find, including many that Marad had published for exports and imports.

Coal is a good example. We estimated that in the year 2000 43.4 million tons of coal would be exported each year. CNA estimated

25 million tons. That is a big difference when you talk in terms of ships.

Another aspect that is striking about the CNA study is first, it concludes, as I am sure you appreciate, that none of these ships would have any military utility the way they are being constructed for commercial use. That is number one. Then they go through certain levels of enhancement.

At the first level, you would have a fleet of small bulk carriers carrying break bulk cargo basically on the decks and on hatch covers. That is an incredible use of a ship that costs $80 million. It does not really make much sense.

The do see some military utility for the smaller tankers. They project there would be 12 smaller tankers in the whole fleet. They have OBO's carrying grain to Europe, going in ballast to the Persian Gulf to get oil, and then coming back to the United States.

That gives them a triangular trade with 70,000 ton OBO's, a trade that just would not happen. These are very dubious assumptions.

CNA actually called us at the suggestion of the Navy to find out about the U.S. effective control fleet and what proportion of it was made up of geared dry bulk carriers. We told them that 25 of the 30 small U.S. dry bulk ships were geared.

They came out with the study that lumped those ships in with OBO's and said that most of them are not geared. Well, of course, by including OBO's which usually are not geared, most of the total number became not geared.

That is the kind of study that I really do not have much respect for. I will say that it is dispassionate, but it is not realistic.

I would appreciate the opportunity, and I am sure you would ask me anyway, to put in writing some other thoughts on the CNA study because I think it is only fair that it be judged in its real context. It is not a bad try. But I wish CNA had gone out to the industry, the people operating and building the ships, and found out a little bit more about the industry.

We believe that our numbers are reasonable and we emphasize that we have not loaded them with a lot of extraneous factors. For example, we have not put in a captive market factor. I agree basically with the point you made the day before yesterday that it is not entirely realistic to take the cargo preference cargos we have, Government impelled cargos, and say that those would be the rate differentials for this fleet.

It is not realistic because those are all voyage charters involving very old ships, although that should make the rates lower. The ships are chartered of on a hit and miss basis.

It is not really the way to run the program. I did testify on the Jones bill in the House earlier this year and suggested some changes, some constructive changes, that might help in the promotion of that program. But when we get down to it, we are still talking about a captive market in those trades, and the U.S.-flag rates are way above actual costs because of the captive market factor, based on our calculations. I can supply you the numbers.

The preference in rates have an incremental amount over what costs and reasonable return on invested capital should be, mainly because supply and demand do not match very well.

I can only say that cargo preference in the bulk trades would immediately create disequilibrium between supply and demand where you would never had enough ships to match demand for ships.

These ships would be guaranteed a captive market and that can only push up prices. We have not tried to quantify that really. I think if you wanted to, you would go as much as 15 and 20 percent more in added costs based on the captive market factor alone.

Another consideration is inflexibility. If cargo preference applied to bulk imports and exports, U.S.-flag ships would be operating primarily in shuttle trades. The secret of the bulk business is triangularization, to shorten your ballast legs.

The U.S.-flag ships, with their high costs, I suspect, would not be received too favorably among some of our trading partners and thus very likely would not get into triangular trades. That is a serious problem.

Just a few more thoughts and I will end, Mr. Trible. One is that, while it is fashionable to say that the world is cluttered up with cargo preference, the bulk shipping business is run by people from Hong Kong and Greece and Norway and other small countries that really are not much in terms of world trade. They are not like the United States, and yet they control much of the tonnage, that leads me to believe that they are getting the business on the basis of their competitiveness, not their countries cargo preference laws.

I cite one study in my statement showing that roughly 95 percent or more of the free world's bulk trades are not encumbered by cargo preference laws. I agree with the API witnesses that there are some developing countries, if you will, which have embryonic fleets and think cargo preference is a way of getting them started. But we are not in that league. We are the United States.

If you look at the nations in our " club", I would say the OECD nations represent the essential group. I think you will only find one nation, and that is France, which back in the days of Smoot-Hawley enacted a cargo preference law on oil in 1928 and on coal in 1934.

Any of the other nations you hear have cargo preference have laws applying only to government controlled cargos. That is the big difference. We have, according to the State Department, more than 40 treaties of friendship, commerce and navigation that the Senate has ratified which guarantee our trading partners' vessels equal access on commercial cargos with U.S.-flag vessels. As the State Department has said time and again, any cargo preference law like this would violate those treaties.

I will not get into any detail on the military utility. I think the CNA study handles that question.

Basically as our statement says the small tankers have military utility. You would not get many small tankers out of this bill. You would get a lot of big ones and they are not much use.

Bulk carriers, unless you want to spend $16 million more a ship when the hostilities start as CNA suggested, you are essentially white elephants. They do not fit in.

I would like to have the time to talk about some constructive steps that could be taken to help the merchant marine, but my time has ended and I can only thank you for your forebearance.

Senator **Trible**. Mr. Loree, why do you not submit some of those ideas for the record and rather than ask you to stay longer—you have been most patient during 2 long days of hearings—we will submit some additional questions to you to flush out your testimony.

Thank you for being here.

[The statement follows:]

Statement of Philip J. Loree, Chairman Federation of American Controlled Shipping

Thank you very much, Mr. Chairman, for the invitation to appear before your Subcommittee and present our views on S. 1624, as amended.

Once again this year, indeed for the fifth time during the last eleven years, Congress is hearing testimony on cargo preference proposals. The fact that earlier proposals were defeated on the Senate floor (1972), vetoed by the President (1974), defeated on the House floor (1977) and left to die in committee (1981) should indicate to all of us that cargo preference on privately owned liquid and dry bulk imports and exports is, at the very best, a fatally flawed proposal.

Over the years the proponents of cargo preference have vigorously argued that it is the prevailing international practice, that it would produce a badly needed merchant fleet able to meet national defense requirements and that the fleet would be constructed and operated at reasonably low incremental cost.

In my testimony today I will show that the realities of international shipping, national defense requirements and added U.S. construction and operating costs support none of those assertions.

CARGO PREFERENCE IS BY NO MEANS THE PREVAILING PRACTICE IN THE COMMERCIAL BULK TRADES

The U.S. proponents of cargo preference in the bulk trades represent maritime unions, shipbuilders and some ship operators which as a group have effectively priced themselves out of the international bulk markets. Somewhere along the way they lost sight of the very basic premise that shipping is a service. It exists for the purpose of moving cargo from loading ports to discharge ports—not for providing employment to highly paid crew members, or assuring new orders for noncompetitive shipyards, or guaranteeing charters for ship operators who seemingly do not know how to compete in an open access, free market. Hoping to build up support for protectionist measures that would insulate them further from the competitive marketplace, they argue that the rest of the world is protectionist, that everybody is doing it and that there is no such thing as free trade in international shipping. The flaw in their argument is that the facts of life in the international bulk cargo trades show that they are wrong.

While a few developing nations have (without notable success) resorted to cargo preference laws in an attempt to build up their infant bulk shipping fleets, the fact remains that the vast proportion of the Free World's bulk commodities is transported in international trade free of any such legal restraints.

In 1981 a group of experts operating under the aegis of the United Nations Conference on Trade and Development (UNCTAD) circulated questionnaires throughout the world to major exporters and importers of iron ore, phosphate, bauxite and alumina. Replies from approximately 170 companies in 31 countries produced a wealth of information on the dry bulk trades, and showed that the overwhelming majority (greater than 95 percent of all transport arrangements covering these four dry bulk commodities were not determined by cargo preference laws, but by the commercial terms of sale, usually FOB or CIF.

Stated in another fashion, the vast majority of the commercial bulk trades in the Free World are open to owners, crews and vessels without regard to nationality.

The following tables, based on the most recently published MarAd statistics, show the six leading tanker and bulk carrier fleets of the world. In either category, the aggregate tonnage of the six leading registries represents about two-thirds of the world's total tonnage in that category. It is noteworthy that none of the six countries in either category has enacted cargo preference laws allocating commercial bulk cargoes in international trade on the basis of national flag:

Leading bulk shipping fleets as of Jan. 1, 1982

	Dwt.
Tankers:	
Liberia	97,670,600
Japan	33,947,200
Greece	29,093,600
Norway	26,298,900
United Kingdom	22,649,100
United States	16,631,100
Total dwt	226,290,500
Percentage of total dwt in world tanker fleet	65.3
Bulk carriers:	
Liberia	42,705,500
Greece	30,842,900
Japan	22,578,900
Panama	14,744,800
Norway	10,472,000
United Kingdom	10,322,500
Total dwt	131,666,600
Percentage of total dwt in world bulk carrier fleet	67.5

Proponents of cargo preference, in contending that unilateral cargo reservation is the trend in international bulk shipping, frequently cite France as the archetype of cargo preference. Under decrees of 1928 and 1936 respectively, France requires that two-thirds of its crude oil imports and 40 percent of its coal imports be carried in French vessels.[1] (It is noteworthy, however, that the decrees do not require such vessels to be built in France). The French laws are clearly protectionist in nature, but they have not been prototypes for the rest of the Free World in terms of unilateral cargo preference in the bulk trades. Today France virtually stands alone among the industrialized nations of the Free World with its unilateral cargo preference laws.

At the same time, on the international level the United States has consistently been a staunch defender of maintaining open access, free markets in international bulk shipping, and has been an outspoken proponent of liberalizing the movement of trade and services across national boundaries by eliminating non-tariff barriers. It scarcely needs to be stated that a law requiring that bulk cargoes be transported on vessels built and registered in this country would be a 180° turn away from that policy.

In addition, the United States is signatory to more than 40 treaties with foreign nations, including some of our closest allies, in which there are provisions to accord equal treatment and equal access to the vessels of the treaty partners. If the merchant vessels of treaty partners were denied the right to compete for certain dry bulk commercial cargoes in the U.S. export and import trades, those treaty commitments would be violated.

CARGO PREFERENCE WOULD NOT MEET ANY MEANINGFUL NATIONAL DEFENSE OR NATIONAL SECURITY NEEDS

With the limited exception of relatively small tankers, the vessels that would be built to meet the requirements of S. 1624 would have little or no natioanl defense utility. Unlike general cargo, RO/RO and LASH vessels, containerships and reefers, the dry bulk carriers and larger tankers produced by the bill would be virtually worthless in a military context. This point was made very clear in the final report, published in 1979, of the National Transportation Policy Study Commission (NTPSC) which was established by Congress to study transportation policies through the end of the century. While recognizing the critical importance of certain types of vessels, the NTPSC report concluded that "the need for a U.S. [flag] dry bulk fleet for national defense and security objectives is another matter." It emphasized that an analysis prepared by the Maritime Administration and confirmed by the Department of Defense indicated that "dry bulk carriers cannot be used for military cargo without extensive conversion; hence there is no military requirement for this type of vessel." The same observation pertains to large tankers and has been empahsized time and again by Defense officials.

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[1] The 1928 decree was modified by decrees of 1950 and 1971 to permit use of non-French flag vessels so long as it could be shown that the French fleet had the capacity to carry two-thirds of the oil imports. The 1936 decree covering coal imports has not been similarly modified.

The NTPSC also pointed out that from the standpoint of the national security, U.S. effective control vessels are available in an emergency to augment U.S. flag capability in the transportation of critical bulk imports. American companies, most of which are members of our organization, control and manage the modern Liberian and Panamainan flag liquid and dry bulk vessels that make up the U.S. effective control fleet, the availability of which is described in Appendix A to this statement.

As pointed out on page A-11 of the Appendix, U.S. effective control policy has been reviewed and reaffirmed by Secretary of Defense Weinberger who, on June 8, 1981, advised that "* * * we have no basis to believe that most of the ships in question would not be made available when needed." This was affirmed once again in a letter to me dated May 13, 1983, from George Sawyer, Assistant Secretary of the Navy (Shipbuilding and Logistics). He wrote: "In the area of allied sealift support for economic security and sustaining support, the foreign flag vessels of the Effective U.S. Controlled Fleet (EUSC) are most certainly considered to be a major source of maritime assets. * * * [Y]ou can be assured that this fleet is expected to provide a substantial proportion of the sealift capacity required in the carriage of bulk wet and dry commodities needed to support a major war effort or a 'go it alone' conflict. There has been no change in thinking concerning the validity of the intended usage of the EUSC fleet."

The U.S. effective control fleet is both commercially oriented and internationally competitive, operating without subsidy or other financial assistance. More importantly, it offers more than enough sealift capability to transport all U.S. liquid and dry bulk imports at current levels if our nation needs them in time of war or national emergency.

No doubt, bulk vessels in the fleets of other NATO nations would also be available, if needed, in a widespread conflict such as World War II. Also to be considered is the fact that the United States can, and does, stockpile certain critical bulk imports such as manganese, chromium, bauxite and crude oil.

The national security justification for cargo preference in terms of bulk exports—such as coal, grains, phosphate, soybeans and forest products—is even more difficult to conceive. Those are commercially oriented trades which in any serious emergency would be suspended or sharply curtailed.

Judged from the standpoint of national defense, S. 1624 actually could be detrimental. First, it would divert limited shipping investment resources to produce the wrong mix of ships, with bulk carriers and larger tankers favored over the types of vessels which do have national defense utility. Second, it would create a heavy upward pressure on demand for U.S. shipbuilding, and thus would likely escalate the cost of naval construction.

CARGO PREFERENCE WOULD RESULT IN SUBSTANTIALLY INCREASED OCEAN TRANSPORTATION COSTS AND THUS BE DETRIMENTAL TO THE U.S. ECONOMY, PARTICULARLY TO CONSUMERS AND THOSE AMERICANS SEEKING TO SELL THEIR PRODUCTS ABROAD

The essential cost question is not whether cargo preference would increase ocean transportation costs, but rather, by how much. Estimating such cost increases is not an easy task, because, among other things, the proposed legislation covers such a wide variety of commodities shipped in international trade, including iron ore, coal, crude oil, petroleum products, chemicals, bauxite, alumina, phosphate rock, grains, soybeans, rice, sugar, sorghum, fertilizers, potash, sulphur, chrome ore, gypsum, manganes ore, petroleum coke, iron and steel scrap and forest products, The oceanborne transportation of these commodities encompasses varying trade routes and a range of vessel sizes, and requires projections of future volumes over the next sixteen years, at which point the 20 percent cargo preference requirement would become fully operative.

There are cost aspects of cargo preference which we have not attempted to quantify. These include, among others, the cost impact of creating a captive market for U.S. flag vessels and the impact on charter rates where the demand for U.S. flag vessels predictably will always be greater than the supply of available vessels; the potential increase in rates in the Jones Act and U.S. Government generated cargo trades; the added costs inherent in creating a system that will be subject to bureaucratic intervention and thus operate with less flexibility and efficiency; and the distinct likelihood that some of our trading partners would follow our example and require that a portion of their exports to the United States be carried by higher cost vessels flying their flags.

The tables in Appendix B to this statement summarize the statistical analysis we undertook earlier this year in estimating the added costs inherent in H.R. 1242. We recognize that unlike H.R. 1242, the current version of S. 1624 would reduce the required number of U.S. built vessels by 50 percent. If the provision remained intact it would serve to reduce our overall cost estimates by approximately 40 percent. The political realities suggest to us, however, that it is unlikely that the provision would remain in its present form if the chances of enacting a cargo preference bill began to improve. Thus, we believe that our original analysis is reasonable and realistic.

Our analysis assumes that the additional transportation costs resulting from cargo preference would not result in sharply declining levels of exports and imports. This assumption admittedly is not entirely realistic because the incremental costs of cargo preference very likely would inhibit cargo flows. We have also assumed that U.S. shipbuilders could meet the tremendous demand for newly built vessels that cargo preference would generate. That assumption is also questionable, particularly in view of the shipbuilding demand created by the ongoing naval ship construction program. Nevertheless, we made these assumptions in order to analyze the cost effects of cargo preference as its sponsors obviously expect it would operate.

Our cost analysis can be briefly summarized as follows:

In the first year (1984) cargo preference would require 114 new ships totaling 5,900,000 dwt to be built to carry 5 percent of the liquid and dry bulk exports and imports.

In 1990 cargo preference would require a total of 297 vessels of 16,400,000 dwt in order to transport 11 percent of the cargoes.

In 1999 cargo preference would require a total of 701 vessels of 38,600,000 dwt in order to transport 20 percent of the cargoes.

The cumulative added construction and operating costs over the period from 1984 through 1999 would total $93.9 billion in 1983 dollars, or an average annual cost of $5.87 billion.

There would, as I noted earlier, be additional costs. For example, if the captive market premium were conservatively estimated, the total cost would be escalated to $117.4 billion in 1983 dollars.

We offer these estimates from the vantage point of being the only maritime-related group appearing earlier this year before the Subcommittee on Merchant Marine of the House Merchant Marine and Fisheries Committee in opposition to cargo preference which attempted to assess in detail the cost impact in terms of all liquid and dry bulk imports and exports. During that testimony the Shipbuilders Council of America (SCA) was the only proponent of cargo preference to offer a similar comprehensive estimate and provide some detail to back up their cost study. The following table summarizes and compares the estimates prepared by SCA and FACS in 1983 dollars:

	SCA	FACS
Number of ships	268	701
Total deadweight tons	21,882,200	38,538,440
Capital acquisition cost aggregate (billions)	$24	$56.2
Capital acquisition cost (dollars per deadweight tons)	$1,097	$1,458
Average vessel deadweight tons	81,650	54,966
Trade—Year 2000, 20 percent U.S. share—million tons:		
Coal	27.2	43.4
Other dry bulk	94.2	103.7
Petroleum	49.6	81.4
Total	171.0	228.5
Freight rate differential:		
1983 (per ton)	$10	$24–$46
2000 (per ton)	$5.60	$24–$46

Obviously, one fundamental difference between the two estimates is the volume of U.S. exports and imports in the year 2000. This is no doubt a reflection of the imprecision inherent in attempting to estimate cargo flows many years in the future. SCA did not provide any detail on their estimates. Our estimates are more optimistic but do not, by themselves, explain the substantial difference in cost estimates.

The difference is explained in part by the fact that SCA assumed that its projected lower trade volumes would be carried in ships that, on average, are almost 50 percent larger than the sizes estimated by FACS. Our ship size estimates were based on a detailed study undertaken for MarAd (see Appendix, page B–2). The fact is that most of the world's bulk cargoes are transported in smaller vessels, providing the owners greater flexibility, particularly in the U.S. trades where port channel depths are less than in many other parts of the world. By assuming a larger average ship size, SCA was able to take advantage of the lower construction and lower operating costs per dwt. associated with larger ships. We believe that assumption and the lower costs it produces are unrealistic and cannot be justified.

Based on the testimony of the proponents of H.R. 1242, it appears that most of the U.S. flag ships are expected to be in shuttle trades, with backhaul cargoes where possible. In fact, bulk carriers (especially dry bulk carriers) achieve maximum economic utilization when they cross trade, thereby minimizing ballast voyages as much as possible. Our estimates gave the benefit of the doubt to the U.S. flag ships by assuming that the "efficiency coefficient" expressed as laden ton miles per year would be the same for both U.S. and foreign flag ships.

SCA's 1983 freight rate differential was purportedly based on 1983 market rates, and assumed a $16/ton figure for U.S. ships and $6/ton for foreign ships. They would have to look long and hard for a U.S. flag ship with a voyage charter in the international bulk trades at a rate of $16 per ton. That low rate might be paid for a short haul (e.g., to Central America) in a small ship, but it is not representative of rate differentials covering most U.S. liquid and dry bulk import and export trades. For example, on May 5, 1983, The Journal of Commerce reported that a Norwegian vessel was chartered to carry 29,884 tons of bulk wheat to Chile at a rate of $14.50 per ton. The same issue reported a U.S. vessel chartered on the same voyage terms for 28,250 tons of bulk wheat to Chile at a rate of $40.84 per ton. The differential of $26.34 is more than double the SCA estimate.

Another example is the charter of the newly converted U.S. flag vessel *Golden Phoenix* reported in the April 18, 1983 issue of The Journal of Commerce. The vessel was chartered to carry 105,000 tons of wheat from the U.S. Northwest to Egypt at a rate of $54.00 per ton. At the same time a British flag vessel was chartered to carry 50,000 tons of wheat on the same voyage for $20.95 per ton, a difference of $33.05 per ton or more than triple the SCA estimate. This differential is even more striking when one considers that the economies of scale are supposed to work in favor of the larger vessel.

We do know that SCA estimated future foreign rates would go up to $8 per ton because of a "more balanced supply and demand situation" in the world bulk markets and that U.S. rates would go down to $13.60 per ton because of "efficiencies of the proposed longterm shipbuilding program and long-term ship charters, coupled with the required cost reductions * * *." This intuitive, non-analytical approach to future costs based on present cost estimates that have no relation to reality is a classic example of the wish being father to the thought.

Our estimates more realistically assumed that a newly built U.S. vessel would be competing with a 5 year old foreign vessel newly acquired by a foreign owner. The basis for this assumption is that the world's bulk fleet is presently overtonnaged, and would be even more so if new U.S. flag ships were built to carry the trade allocated to them under cargo preference. The foreign flag competition for the non-preference share of the cargoes would come primarily from that older, partially depreciated foreign fleet. This magnifies the capital cost differential, both in terms of acquisition cost and debt service.

It is not possible to determine how SCA estimated the cost differential in the year 2000. We assumed that the current differential in capital, crew, insurance, maintenance etc. costs would continue, implying that any reductions made on the U.S. side would be matched on the foreign side.

Even with some clearly unrealistic assumptions, SCA estimated the cost of H.R. 1242 to be $10 billion over the next 16 years. Our study indicates that more realistic assumptions would raise that total cost more than ninefold.

Finally, we cannot believe that the tax writing committess of the Congress, not to mention the Adminstration, would ever sanction or endorse the proposal in S. 1624 to provide shippers with tax credits to cover 10 percent of their increased costs. We do believe that the concept would be impossible to translate into practice, would be impossible to administer and control, and would also open the door to countless other Americans seeking tax credits to offset higher costs brought about by government fiat. In the end, of course, even if the tax credits were feasible, they would still leave importers and exporters with 90 percent of the added costs heaped on their shoulders. We believe that if money is to come out of the U.S. Treasury to support shipbuilding and merchant shipping, the costs should be paid by all U.S. taxpayers in the form of direct subsidies.

Apendix A.—U.S. Effective Control Fleet

The Federation of American Controlled shipping (FACS) is a trade association of American companies which was formed in 1958 to represent U.S. beneficial owners of vessels registered under the laws of Liberia, Panama, and Honduras. As of August 31, 1982 the American companies in FACS controlled 257 such vessels with a carrying capacity totalling almost 35 million deadweight tons.

The following is a listing of the Liberian and Panamanian registered vessels controlled by FACS members as of August 31, 1982 showing types, tonnages and registries of ships:

	Tankers		Oil/ore combos		Bulk carriers		Other [1]	
	Number	Deadweight tons	Number	Deadweight tons	Number	Deadweight tons	Number	Deadweight tons
Liberian	154	27,347,114	11	1,290,962	20	1,337,161	20	434,430
Panamanian	34	4,042,003			2	93,593	6	98,824
Total	188	31,389,117	16	1,290,962	22	1,430,754	36	533,254

[1] Includes LNG, LPG, product/chemical tankers, general cargo and refrigerated cargo vessels.

These Liberian and Panamanian registered ships have made it possible for American shipowners, in the absence of construction and operating subsidies, to compete in the world's commercial bulk cargo trades, the most open and competitive segment of the entire shipping industry. These vessels are competitive because they have essentially the same construction and operating costs as foreign controlled vessels which are predominant in these trades. Since available charters for commercial cargoes such as oil and ore invariably go to ships with the lowest costs and most efficient operations, unsubsidized American flag tankers and bulk carriers, with their much higher construction and operating costs, have been effectively priced out of this international market for several decades. FACS members also own or operate about half of the total tonnage in the privately owned American flag tanker fleet.

Virtually all of the Liberian and Panamanian vessels controlled by FACS members were built abroad, primarily in Japanese shipyards. The crews on U.S. effective control vessels are foreign nationals. With respect to the ships controlled by FACS members, more than 80 percent manned by licensed personnel from western European nations, the predominant nationality being Italian.

The vessels controlled by FACS members make up approximately 75 percent of the total tonnage in the U.S. effective control fleet, which is described in the remaining paragraphs of Appendix A.

The U.S. effective control fleet is made up of Liberian, Panamanian and Honduran flag ships which American companies have committed to be made available to the United States in the event of war or national emergency. These commitments are based on agreements, voluntary undertakings and/or contractual agreements with the United States government which, if effect, provide that the ships will be made available in times of crisis in exactly the same manner as U.S. flag vessels. U.S. effective control policy comes into full force and effect in time of war or national emergency proclaimed by the President pursuant to § 902 of the Merchant Marine Act of 1936 which provides, in part:

"Whenever the President shall proclaim that the security of the national defense makes it advisable or during any national emergency declared by proclamation of the President, it shall be lawful for the Secretary of Transportation to requisition or purchase any vessel or other watercraft owned by citizens of the United States or under construction within the United States, or for any period during such emergency, to requisition or charter the use of any such property. The termination of any emergency so declared shall be announced by a further proclamation by the President."

On July 1, 1982 MarAd listed 286 Liberian and Panamanian tankers of 40.2 million deadweight tons. In addition, there were 20 general cargo ships and 106 bulk cargo ships aggregating about 6.6 million deadweight tons. The table on the following page breaks down the MarAd data by flag.

In recent years, the more outspoken advocates of building up the U.S. flag merchant marine have adopted a stance that only U.S. built and registered merchant ships represent an asset in terms of the national security. We do not believe that anyone can seriously contend that having the U.S. effective control fleet available as a large reserve fleet for use or requisition in time of war or national emergency is not a plus factor in terms of the national security. This is particularly so in view of the tremendous carrying capacity of the U.S. effective control fleet, most of it modern tankers, combination vessels, and dry bulk carriers.

As government officials have emphasized on various occasions, the primary task for U.S. effective control vessels during war or national emergency is not to provide direct support to the armed forces, although it is likely that some ships would be employed in this fashion. Instead, as the Department of Defense has testified at various congressional hearings, the value of these vessels lies in transporting critical materials in times of crisis.

EFFECTIVE U.S. CONTROL (EUSC) FLEET, JULY 1, 1982

	Number[1]	Deadweight tons	Liberian		Panamanian	
			Number	Deadweight tons	Number	Deadweight tons
Total—All ships	466	47,221,795	363	40,673,240	96	6,498,134
Dry cargo	126	6,628,330	100	5,903,588	26	724,742
General cargo	20	161,752	11	129,041	9	32,711
Bulk cargo	106	6,466,578	89	5,774,547	17	692,031
Passengers	1	9,866				
Tankers	286	40,219,738	230	34,502,124	56	5,717,614
Major types	259	39,426,464	208	33,852,884	51	5,573,580
Others	27	793,274	22	649,240	5	144,034

[1] Included in this total are 6 Honduran reefer cargo vessels totaling 40,555 deadweight tons.

Source.—Effective U.S. Control (EUSC) as of July 1, 1982. Maritime Administration, U.S. Department of Transportation (January 1983).

The history of U.S. effective control policy dates back to the early days of World War II when American companies, acting at the request of the United States Government, made available their Panamanian, Honduran and Venezuelan flag ships as part of the effort to supply Great Britain and France with essential supplies, a trade barred to American flag ships by the Neutrality Act of 1939. At the same time, the government encouraged transfers to Panamanian registry—an action which gave birth to the U.S. effective control concept. By July 1941 there were 111 vessels of more than 1 million deadweight tons under U.S. effective control, including 88 tankers aggregating over 950,000 deadweight tons.

Later, when the United States entered World War II, U.S. effective control ships joined with the American merchant marine in the war effort, including the famous convoys to Murmansk. During the war many were sunk by enemy action. One American company alone lost 19 ships, while another operator lost 17 vessels.

As reported in a U.S. Department of Commerce study, it was during World War II that the term "effective control" was actually adopted by the War Shipping Administration to differentiate between ships operating under U.S. flag and those under foreign flags, principally Panamanian. The same governmental study points out that the present U.S. effective control policy was developed originally by the Joint Chiefs of Staff.

In 1945, the Joint Chiefs of Staff considered the role of U.S. merchant shipping as an instrument of national defense as follows:

"To be effective as an instrument of national defense U.S. merchant shipping should be under U.S. flag or effective U.S. control and should be of such capacity that it is able to absorb substantial initial losses which may be occasioned by either a surprise attack or an efficient submarine and air interdiction of sea lanes, or both, and still perform the following services:

(a) Provide logistic support for forces of the U.S. which may be overseas at the time of the emergency.

(b) Transport U.S.forces to overseas destinations and maintain such forces.

(c) Maintain the economic war making capacity of the country."

At the same time, the Joint Chiefs of Staff also defined effective U.S. control:

"The term 'effective United States control' as applied to shipping is considered to include all shipping which can be expected to be available for requisition by the United States Government in time of national emergency even though such shipping may not be under the United States flag. When ships earmarked for the National Defense pool are chartered by agencies other than United States nationals, agreements should be made to return these ships to United States Government control if required for war or emergency purposes." (J.C.S. 1454/1)

In 1947, the Joint Chiefs of Staff expanded and clarified that definition as follows:

"The term 'effective United States control' as used [in J.C.S. 1454/1] appears to be inadequately defined. On a number of occasions doubt as to the meaning of the term has arisen. Except through agreement there are no legal means by which the United States can regain control of a United States merchant vessel the registry of which has been transferred to another country. From a legal standpoint therefore it can be considered that the only time a vessel is under absolute 'effective United States control' is when it flies the United States flag. Actually, however, there are certain countries in this hemisphere which through diplomatic or other arrangements will permit the transfer to their registry of United States ships owned by United States citizens or United States corporations and allow these citizens or corporations to retain control of these vessels. Prior to entry of the United States into World War II, United States vessels were transferred to Panamanian registry for the purpose of rendering aid to the allies. Such a case as the above can be considered to be within the meaning of the term 'effective United States control'. When the foreign authorities who are in a position to dictate to the owner, master, crew, charterer or other individual or agency having physical control of the vessel are willing and able to bring the vessel under control of the United States in an emergency for such use as the United States may wish to make of the vessel, such vessel may also be considered to be under 'effective United States control'. It can be concluded, therefore, that the primary considerations in determining whether or not a United States merchant ship registered under a foreign flag would still be under 'effective United States control' are:

(a) The practice followed in the past in regard to transfer of United States merchant vessels to foreign registry.

(b) The status of diplomatic relations between the United States and the foreign country concerned.

(c) Its relations with countries opposed to our system of government or foreign policy.

(d) Proximity of the foreign country to the United States.

(e) The stability of its government." (J.C.S. 1454/11)

In 1959 the National Academy of Science-National Research Council in a study entitled "The Role of the U.S. Merchant Marine in National Security" (Project WALRUS) had the following to say about effective U.S. control:

"For purposes of indisputable control, it would be preferable that all U.S.-owned merchant shipping be documented under U.S. flag. Such an ideal situation does not exist. At the same time. U.S. flag merchant tonnage is not adequate to meet our total wartime needs. This is particularly true with tankers, as about half of the U.S.-owned tanker tonnage is registered under foreign flags.

"In the event of war it will be necessary to augment U.S. flag shipping. The Maritime Administration and the Navy Department have determined jointly that it will be practicable to bring a portion of the U.S.-owned foreign-flag shipping under direct U.S. control in the event of a national emergency. This effective U.S. control concept is a matter of expediency, rather than choice, and applies essentially to designated shipping under the 'flags of convenience.'

"Determinations regarding effective control are not founded on governmental treaties. Assurances that specific ships will revert to U.S. control are given by the U.S. owners of the ships, not by the country of registry. Former U.S. flag vessels that were transferred to Panlibhon registry are under effective control as a result of stipulations in the transfer contract approvals granted by the Maritime Administration. Less formal agreements apply to foreign-built shipping.

"U.S. owners can register foreign-built shipping under any friendly flag of their choice, or transfer from one flag to another at will. In the case of foreign-built Panlibhon flag ships, the Maritime Administration normally negotiates agreements with the U.S. parent companies that the ships will be made available to the United States in the event of a national emergency.

"Ships' crews must also be considered in making plans for implementaion of effective control. The crews of ships under Panlibhon flags are all nationals of countries friendly to the United States. The majority are nationals of NATO countries. On the outbreak of an emergency, ships would be routed to selected points for proper screening of personnel—and replacement where appropriate. Dependent upon individual ship locations on the outbreak of an emergency, it is possible that some of the foreign crews may defect and deliver a few Panlibhon ships into enemy hands. In the event of a NATO war it is also possible that some European crews may ignore the orders of U.S. shipowners and deliver ships to ports of the countries from which they were employed. In the latter case, such ships would still support the common NATO effort and their employment would be governed by NATO pooling and allocation procedures.

"*Soundness of Effective Control under Panlibhon Flags.*—The absence of operational control restrictions in the existing maritime laws of Panlibhon governments permits the exercise of effective U.S. control without restraint. Additionally, the ocean shipping requirements of these small, friendly countries are limited and they would be unlikely to requisition ships for their own use in the event of war. Other factors that contribute to the soundness of our effective U.S. control concept are:

(a) The natural bond of U.S. ownership and allegiance is augmented by written agreement between the shipowners and the U.S. government.

(b) The small Panlibhon countries possess limited capabilities to both operate and maintain sizable merchant fleets. Ships under their flags usually ply the world's trade routes and have rare occasion to put into ports of their registries.

(c) Panlibhon countries possess negligible capability to intercept, seize, or protect shippiing on the high seas. Consequently, these nations are not in a position to expropriate U.S. property afloat or to dispute U.S. assumption of control over selected shipping.

(d) The United States possesses a definite and sizable capability to protect shipping at sea. Thus, the United States has both the power and the intent, in event of a national emergency, to comsummate agreements with individual shipowners in respect to designated shipping registered under PANLIBHON flags.

(e) Further, during any national emergency declared by proclamation of the President, Section 902 of the Merchant Marine Act of 1936 empowers the Federal Maritime Board to requisition or purchase any vessel owned by citizens of the United States. U.S. rights under Section 902 are stipulated in all Maritime Administration approvals of transfer to Panlibhon flags.

(f) It appears logical to assume that U.S. citizen-owned ships registered under PANLIBHON flags, for which effective U.S. control agreements exist, would, in the event of a national emergency, gravitate towards a United States protective umbrella for self-preservation. To refuse would probably lead to considerable difficulty in the procurement of war risk insurance."

Also in 1959, then Under Secretary of State C. Douglas Dillon described U.S. policy before an Intergovernmental Shipping Conference:

"My final thought on this subject is that, until such time as it may be feasible for these American shipowners to operate competitively under the United States flag, my Government retains its interest in the continued operation of ships under foreign flags, including the Panlibhon registries. From our viewpoint there are important and valid defense requirements which support this position."

Since World War II there has not been a national emergency which required the requisitioning of U.S. effective control vessels or, for that matter, American flag vessels. Nevertheless, U.S. effective control vessels have been credited with aiding the nation's sealift requirements during the Korean and Veitnamese conflicts. During the Korean war American companies committed both their U.S. flag and foreign flag vessels were credited with making most of the foreign tanker voyages under the voluntary tanker plan. In December 1960 the Office of Civil and Defense Mobilization reported:

"* * * in practice during World War II and Korea, when the United States called on privately owned tonnage to meet defense needs, Panlibhon (Meaning Panamaniam, Liberian and Honduran flag) vessels subject to emergency utilization by the United States were immediately made available. In neither case did serious problems develop because of the foreign nationality lof the crews."

Throughout the Vietnam conflict U.S. effective control tankers were engaged in the carraige of essential petroleum products to South Vietnam on a commercial basis. For example, a 1967 study showed that during the 12-month period ending March 31, 1967 U.S. effective control tankers made 61 voyages to or between South Vietnamese ports, delivering more than 5-½ million barrels of petroleum products. During this same period these same ships spent an aggregate of 429 days in Vietnamese waters on floating storage or shuttle service duty, transferring petroleum products to and from other tankers, including MSTS vessels.

One of the strongest arguments in favor of U.S. effective control olicy is past performance. In testimony during March 1966, Maritime Administrator Nicholas Johnson, speaking of U.S. effective control policy, said:

"Certainly if the history of the Second World War and Korea is valid for purposes of future planning, history is on the side of this judgment. As a practical matter these ships have been available to the United States when needed."

He also said:

"The government believes these ships to be subject to the 'effective control' of the United States under emergency conditions. We are not now talking about ships owned by foreign citizens and registered in foreign countries—which have in a small number of cases refused to carry our defense cargoes—but ships owned by Amercian citizens. We are talking of plans that, by and large, those ships will continue to serve the raw materials import trades that they now serve—although some of them would be directly involved in the defense effort (and are today)."

It should be added that no crews on U.S. effective control vessels refused to sail during world war II, the Korean conflict or at any time during the Vietnam conflict. This may explain why during 1967 Secretary of Defense Robert S. McNamara stated:

"In a full scale national emergency, we believe 'effective U.S. controlled' ships will be as available to DoD (Department of Defense) as U.S. flag ships."

This policy of reliance on the fleet as a supplement to U.S. flag vessels continues to the present. In July 1977, for example, Vice Admiral Edward W. Cook, Deputy Chief of Naval Operations for Logistics, U.S. Navy, testified as follows on the subject of U.S. effective control policy:

"In case of mobilization, we believe those ships will be available. There is a contractual control, based on war risk insurance, but beyond that, there is the fact that they are U.S.-owned in case of mobilization. We believe they would be available for U.S. forces." (Hearings before the Committee on Merchant Marine and Fisheries, Serial No. 95-12)

Similarly, Admiral James L. Holloway III, Chief of Naval Operations, in his policy statement dated March 1, 1978 on the Navy's military and budget postures confirmed that:

"The United States has plans for the utilization of foreign flag ships of the Effective U.S. Control (EUSC) Fleet. These are U.S.-owned or U.S. controlled ships of foreign registry of 1,000 gross tons or more, which are under contract to the Maritime Administration. These can reasonably be expected to be made available for U.S. use in time of emergency."

More recently, Everett Pyatt, Principal Deputy Assistant Secretary of the Navy, Logistics, testified on December 11, 1979 that:

"We would expect that foreign-flag vessels owned or controlled by U.S. citizens would be made available to the U.S. in time of national emergency. Although all might not be able to respond in time of need, we have no reason to believe that a significant amount would not be placed at the disposal of the U.S."

The most recent assessment came from Secretary of Defense Caspar W. Weinberger on June 8, 1981, when he replied to a request of the National Maritime Council asking that the Department of Defense undertake "a thorough review of the validity of the 'effective control' concept." In its letter the NMC raised questions as to the availability and reliability of the vessels in the event of an emergency and cited the possibility of flag state intervention if the United States sought to utilize the vessels. Secretary Weinberger's letter advised that the Department of Defense had in fact, reviewed the effective control concept as NMC requested and offered the following evaluation:

"The EUSC fleet is composed of some 465 ships primarily under Liberian registry with a few under Panamanian and Honduran flags. These ships, owned or controlled by U.S. citizens, are considered in contingency plans for sealift requirements primarily as a source of ships to move essential oil and bulk cargoes in support of the national economy. The majority of these vessels are not considered militarily useful.

"The EUSC countries of registry have stated that they will assert no control over the employment of ships on their registeries, and that they will not interfere with the exercise of emergency authority by the governments of shipowners. They have indicated, with varying degrees of formality, that they would not interpose any objections to the exercise of U.S. requisitioning authority over U.S. owned ships.

"While there are other forms of control exercised by the Government over foreign registered ships, the real basis for the effective U.S. control concept is the authority provided by Section 902(a) of the Merchant Marine Act of 1936 which authorizes the Secretary of Commerce to requisition ships in time of war or national emergency regardless of registry. There have been no formal treaties executed with the countries of EUSC registry. Although we do not consider their crews as reliable as U.S. crews, we have no basis to believe that most of the ships in question would not be made available when needed."

APPENDIX B—SUMMARY OF ANALYSIS OF THE ADDED COST IMPACT OF H.R. 1242

This analysis is limited to the potential added cost impact of H.R. 1242 over the next sixteen years. H.R. 1242 would require that after 16 years (with 1 percent increments per year), 20 percent of the nation's wet and dry bulk imports and exports be carried by U.S. flag vessel constructed in the United States without the aid of construction differential subsidy and operated without operating differential subsidy.

ASSUMPTIONS

The following assumptions form the basis of the analysis:

(a) U.S. flag construction costs are assumed to be 3 times foreign construction costs in 1931 dollars, a factor representative of today's market conditions.

(b) Since the newly-created U.S. flag fleet would be competing against an existing, overtonnaged world fleet, the capital costs for foreign ships are taken as representing the cost to a new owner of a 5 year old ship. This favors the U.S. flag since the world bulk fleet is closer to 10 years old than 5 years old.

(c) Financing costs are assumed to be the same for both the U.S. and the foreign built ships. A capital recovery factor of 18.68 percent per year, based on current interest rates and a reasonable return on investment to the owner, is used.

(d) U.S. crew costs for all of 1983, including the increase effective June 16, 1983, are taken as $3.4 million for a crew size of 26. Foreign crew costs of $1.1 million represent Italian levels and are between high cost European crew and low cost Far Eastern crew.

(e) Costs for subsistence, stores, supplies, maintenance and repair are consistent with the experience of FACS companies operating both U.S. and foreign vessels. The maintenance and repair costs reflect, among other things, the requirement that non-emergency repairs on U.S. flag vessels be undertaken in U.S. shipyards or be subject to customs duty.

(f) Insurance costs are taken as 1.1 percent of the capital cost. While U.S. flag protection and indemnity (P. & I.) insurance costs are higher than foreign flag P. & I. costs, they are assumed to be equal for purposes of this study.

(g) Fuel and port charges are assumed to be the same for both foreign and U.S. flag vessels and are not included.

(h) An efficiency coefficient of 30,000 laden ton miles per dwt per year, representative of historic vessel utilization data, is used to derive the number of ships required.

(i) The primary source of data on U.S. seaborne dry bulk trades is a study entitled "Development of a Standardized U.S. Flag Dry-Bulk Carrier" by M. Rosenblatt & Son, Inc. with assistance from H. P. Drewry (Shipping Consultants) Ltd. and others for the Maritime Administration in 1979 (Phase I) and 1980 (Phase II), hereinafter referred to as the MARAD study. This nine volume study contains a wealth of statistical data on the world and U.S. dry bulk trades.

THE TRADES

Oil and oil product import and export volumes are based on Department of Energy projections. The proportionate split shown in 1981 data between short, medium and long hauls is assumed to continue. The short haul, hand-sized tanker is assumed to be primarily in the product trades from the Caribbean area. The medium haul, mid-sized tanker is taken as representative of the North Sea and Venezuelan trades. The VLCC is assumed to run from the Arabian Gulf. A ton is taken as 7.46 barrels. (See Tables 1 through 3).

Table 3 shows the size ranges of the tankers, the application of the increasing U.S. flag percentage, the number of tankers that would be required and the added cost. At the end of 1999, H.R. 1242 would require 91.06 tankers totalling 9.9 million dwt and an aggregate additional cost of $24.8 billion would be imposed on shippers and consumers of oil and oil products.

Since dry bulk commodities are so varied, move from and to so many places in the world and are carried in so many different size vessels, there are several rational methods of analyzing potential cost differentials. For instance, comparisons can be made of charter market rates for single voyages, contracts of affreightment for one or more years, time charters for one or more years and, if the shipper moves enough cargo, the purchase and operation of new or used vessels. The methodology followed in this analysis is to determine the added costs expressed in dollars per ton mile as derived from vessels of representative size ranges and voyages of representative lengths needed to transport the required percentage of dry bulk cargoes subject to cargo preference. (See Tables 4 through 7).

Table 4 shows the various commodities that would be affected by H.R. 1242. 1982 trade data and future projections are taken from government and industry sources where available. The remainder are taken from the MARAD study. The MARAD study also projects 1980 and 1990 voyage miles for each commodity for each size of ship. This data was interpolated and extrapolated for 1984 and 1999 and applied to the tonnage flows to produce ton miles for each commodity and each size of ship.

Table 7 shows the size ranges of dry bulk carriers, the total U.S. trade ton miles for each vessel size range, the application of 5 percent U.S. flag requirement in 1984 and 20 percent U.S. flag in 1999, the cost of the U.S. flag requirement and the number of ships that would be required. At the end of 1999, H.R. 1242 would require 610 dry bulk carriers totalling 29 million deadweight tons, and an aggregate additional cost of $69 billion would be imposed on shippers and consumers of dry bulk commodities. The total impact of H.R. 1242 is a requirement, in 1999, for 701 vessels of 38.6 million dwt at an added cost to shippers and consumers of $93.9 billion in 1983 dollars.

THE WORLD FLEET

As of December 31, 1982, the world tanker fleet had a capacity of 331.9 million dwt against a demand of 194.8 million dwt, a surplus of 70 percent. The dry bulk carrier fleet had a capacity of 192.3 million dwt against a demand of 147.6 million dwt, a surplus of 30 percent. In addition, there are on order from the world's shipyards 320 tankers totalling 12.3 million dwt, 30 combination carriers totalling 2.7 million dwt and 579 bulk carriers totalling 27.6 million dwt.

Long term forecasters do not now envisage any signficant improvement before late, 1984 or 1985 when it is hoped that the tonnage supply/demand balance will regain some semblance of equilibrium.

MARKET DISTORTION

Protectionist trade policies invariably distort market rates. One such distortion is the premium that would be charged by the U.S. flag vessels in the captive trades that would be created by H.R. 1242. Other added costs would also result, including those from foreign imitation, inefficiency and inflexibility in the use of both U.S. and foreign vessels and the likelihood that U.S. shipyard prices—for the construction of naval vessels and merchant ships—would also reflect a captive market premium. In addition, because these U.S. ships would be free to enter the protected U.S. domestic trades, domestic seaborne transportation rates could be expected to rise. We have not attempted to quantify any of these costs.

TABLE 1.—CRUDE AND PRODUCT IMPORTS/EXPORTS MILLION BARRELS/DAY

[Ship size—deadweight ton]

Year	32,000	80,000	250,000	Total	U.S. percent
1984	1.95	2.38	2.17	6.50	5
1985	2.12	2.59	2.35	7.06	6
1986	2.15	2.62	2.38	7.15	7
1987	2.17	2.65	2.41	7.24	8
1988	2.20	2.69	2.44	7.33	9
1989	2.23	2.72	2.47	7.42	10
1990	2.25	2.75	2.50	7.51	11
1991	2.28	2.79	2.53	7.60	12
1992	2.31	2.82	2.56	7.69	13
1993	2.33	2.85	2.59	7.78	14
1994	2.36	2.89	2.62	7.87	15
1995	2.39	2.92	2.65	7.96	16
1996	2.42	2.95	2.68	8.05	17
1997	2.44	2.98	2.71	8.14	18
1998	2.47	3.02	2.74	8.23	19
1999	2.50	3.05	2.77	8.32	20

TABLE 2.—ANNUAL TANKER COST DIFFERENTIALS IN 1983 DOLLARS

[New United States versus 5-year-old foreign—14 knots]

Vessel size and flag	32,000		80,000		250,000	
	United States	Foreign	United States	Foreign	United States	Foreign
Acquisition (millions)	$90	$8	$120	$7	$220	$4
Annual capital recovery (millions)	16.81	1.49	22.42	1.31	41.10	0.75
Operating cost (thousands):						
Crew	3,400	1,100	3,400	1,100	3,400	1,100
Subsistence	83	56	83	56	83	56
Stores/supplies	300	150	410	205	520	260
Maintenance and repair	1,200	500	1,600	600	1,800	675
Insurance	990	88	1,320	77	2,420	44
Total annual (thousands)	22,785	3,388	29,229	3,346	49,319	2,882
Round trip (miles)	4,000	4,000	11.000	11,000	25,000	25,000
Miles/day	336	336	336	336	336	336
Days at sea	11.90	11.90	32.74	32.74	74.40	74.40
Days per voyage	13.90	13.90	34.74	34.74	76.40	76.40
Number of voyages	25.17	25.17	10.08	10.08	4.58	4.58
Tons carried/year	805,479	805,479	806,032	806,032	1,145,217	1,145,217
Price per ton carried	$28.29	$4.21	$36.26	$4.15	$43.07	$2.52
Extra U.S. cost per ton	24.08		32.11		40.55	

TABLE 3

[In millions of dollars]

Year	Number of tankers				Incremental cost—Millions of dollars			Total
	U.S. percent	Ship size—deadweight ton			Ship size—deadweight ton			
		32,000	80,000	25,0000	32,000	80,000	25,0000	
1984	5	5.92	7.23	4.63	115	187	215	517
1985	6	7.72	9.43	6.03	150	244	280	674
1986	7	9.12	11.14	7.13	177	288	331	796
1987	8	10.55	12.89	8.25	205	334	383	921
1988	9	12.02	14.68	9.39	233	380	436	1,049
1989	10	13.52	16.51	10.57	262	427	491	1,180
1990	11	15.05	18.39	11.76	292	476	546	1,314
1991	12	16.62	20.30	12.99	322	525	603	1,451
1992	13	18.22	22.25	14.24	353	576	661	1,590
1993	14	19.85	24.24	15.51	385	627	720	1,733
1994	15	21.51	26.27	16.81	417	680	781	1,878
1995	16	23.21	28.35	18.14	450	734	842	2,026
1996	17	24.94	30.46	19.49	484	788	905	2,177
1997	18	26.70	32.61	20.87	518	844	969	2,331
1998	19	28.50	34.80	22.27	553	901	1,034	2,488
1999	20	30.32	37.04	23.70	588	959	1,100	2,647
Total added cost								24,773

TABLE 4.—U.S. DRY BULK EXPORT AND IMPORT TRADES

[Millions of metric tons]

Commodity	1982	1984	1990	1999
Coal	79	100	138	217
Iron ore	14.7	28.3	57.7	95.80
Grain	104.3	114.13	143.6	187.81
Alumina/bauxite	15.7	20.2	22.6	26.2
Phosphate rock	10	14.8	19.6	26.8

TABLE 4.—U.S. DRY BULK EXPORT AND IMPORT TRADES—Continued

[Millions of metric tons]

Commodity	1982	1984	1990	1999
Rice	2.9	3	3.4	4
Sugar	4.8	4.9	5.1	5.4
Sorghum	5.4	5.6	6.3	7.35
Soyabeans/meal	32.7	32.9	33.9	35.40
Forest products	25.6	27.6	35.7	47.85
Fertilizers	14.2	16.6	20.2	25.6
Potash	1.1	1.2	1.4	1.7
Sulphur	1.35	1.7	1.9	2.20
Chrome ore	.6	1.2	1.3	1.4
Gypsum	6.8	7.6	9.5	12.35
Manganese ore	.88	1.2	1.3	1.4
Iron/steel scrap	6.5	10.7	11.4	12.1
Petroleum coke	5.9	8	13	19
Other	5	52	5.5	5.9
Total	337.43	404.825	531.4	735.66

TABLE 5. ANNUAL BULK CARRIER COST DIFFERENTIALS IN 1983 DOLLARS

[New United States. versus.5-year-old foreign—14 knots—5,000 to 15,000 mile trips]

Vessel size and flag	30,000		65,000		90,000		120,000	
	United States	Foreign	United States	Foreign	United States	Foreign	United States	Foreign
Acquisition (millions)	$58.5	$7.5	$85.8	$7.87	$90.45	$10.62	$117	$8.5
Annual capital recovery (millions)	10.93	1.40	16.03	1.47	16.90	1.98	21.86	1.59
Operating cost(thousands):								
Crew	3,400	1,100	3,400	1,100	3,400	1,100	3,400	1,100
Subsistence	83	56	83	56	83	56	83	56
Stores/supplies	176	80	202.4	92	259.6	118	330	150
Maintenance and repair	616	280	946	830	1089	495	1232	560
Insurance	644	83	944	87	995	117	1287	94
Total Annual (thousands)	15,846	3,000	21,603	3,235	22,723	3,870	28,188	3,547
Round trip (miles)	5,000	5,000	9,000	9,000	12,000	12,000	15,000	15,000
Miles/per day	336	336	336	336	336	336	336	336
Days at sea	14.88	14.88	26.79	26.79	35.71	35.71	44.64	44.64
Days per voyage	28.88	28.88	42.79	42.79	53.71	53.71	64.64	64.64
Number of voyages	12.12	12.12	8.18	8.18	6.52	6.52	5.41	5.41
Tons carried/per year	363,561	363,561	531,720	531,720	586,436	586,436	649,724	649,724
Cost per/ton	$43.59	$8.25	$40.63	$6.08	$38.75	$6.60	$43.38	$5.46
Extra U.S. cost per ton	35.34		34.54		32.15		37.92	
Added costs to shippers/consumers per year (millions)	12.85		18.37		18.85		24.64	
Cost per 1,000 ton miles	17.43	3.30	9.03	1.35	6.46	1.10	5.78	.73
Added U.S. cost per 1,000 ton miles	14.13		7.68		5.36		5.06	

TABLE 6.—ANNUAL BULK CARRIER COST DIFFERENTIALS IN 1983 DOLLARS

[New United States versus 5-year-old foreign—14 knots—8,000 to 18,000 mile trips]

Vessel size and flag	30,000		65,000		90,000		120,000	
	United States	Foreign	United States	Foreign	United States	Foreign	United States	Foreign
Acquisition (millions)	$58.5	$7.5	$85.8	$7.87	$90.45	$10.62	$117	$8.5
Annual capital recovery (millions)	10.93	1.40	16.03	1.47	16.90	1.98	21.86	1.59
Operating Cost (thousands):								
Crew	3,400	1,100	3,400	1,100	3,400	1,100	3,400	1,100
Subsistence	83	56	83	56	83	56	83	56
Stores supplies	176	80	202.4	92	259.6	118	330	150
Maintenance and repair	616	280	946	430	1,089	495	1,232	560
Insurance	644	83	944	87	995	117	1,287	94
Total annual (thousands)	15,846	3,000	21,603	3,235	22,723	3,870	28,188	3,547
Round trip (miles)	8,000	8,000	12,000	12,000	15,000	15,000	18,000	18,000
Miles per day	336	336	336	336	336	336	336	336
Days at sea	23.81	23,81	35,71	35,71	44.64	44.64	53.57	53.57
Days per voyage	37.81	37.81	51.71	51.71	62.64	62.64	73.57	73.57
Number of voyages	9.26	9.26	6.77	6.77	5.59	5.59	4.76	4.76
Tons carried per year	277,708	277,708	439,917	439,917	502,851	502,851	570,874	570,874
Cost per ton carried	$57.06	$10.80	$49.11	$7.35	$45.19	$7.70	$49.38	$6.21
Extra U.S. cost per ton	46.26		41.75		37.49		43.16	
Added costs to shippers/consumers per year (millions)	12.85		18.37		18.85		24.64	
Cost per 1,000 ton miles	14.27	2.70	8.18	1.23	6.03	1.03	5.49	.69
Added U.S. cost per 1,000 ton miles	11.57		6.96		5.00		4.80	

TABLE 7.—NUMBER OF BULK CARRIERS AND INCREMENTAL COST

[Dollars in millions]

Size deadweight tons	Billion ton miles	U.S. Flag	Cost	Million deadweight tons	Number of ships at average deadweight tons
1984:					
20,000 to 35,000	923	[1] 46.15	$669.18	1.54	55.94
35,000 to 50,000	474	[1] 23.70	220.41	.79	18.59
50,000 to 80,000	774	[1] 38.70	280.58	1.29	19.85
80,000 to 100,000	124	[1] 6.20	32.24	.21	.23
100,000 plus	103	[1] 5.15	25.24	.17	1.43
Total	2,398	[1] 119.90	1,227.64	4.00	96.03
1990:					
20,000 to 35,000	924	[2] 101.64	1,473.78	3.39	123.20
35,000 to 50,000	652	[2] 71.72	667.00	2.39	56.25
50,000 to 80,000	1,169	[2] 128.59	932.28	4.29	65.94
80,000 to 100,000	214	[2] 23.54	122.41	.78	.87
100,000 plus	167	[2] 18.37	90.01	.61	5.10
Total	3,126	[2] 343.86	3,285.47	11.46	251.37

TABLE 7.—NUMBER OF BULK CARRIERS AND INCREMENTAL COST—Continued

[Dollars in millions]

Size deadweight tons	Billion ton miles	U.S. Flag	Cost	Million deadweight tons	Number of ships at average deadweight tons
1999:					
20,000 to 35,000	1,144	[3] 228.8	3,317.60	7.63	277.33
35,000 to 50,000	901	[3] 180.2	1,675.86	6.01	141.33
50,000 to 80,000	1,726	[3] 345.2	2,502.70	11.51	177.03
80,000 to 100,000	314	[3] 62.8	326.56	2.09	2.33
100,000 plus	217	[3] 43.4	212.66	1.45	12.06
Total	4,302	[3] 860.4	8,035.38	28.68	610.07

[1] 5 percent.

[2] 11 percent.

[3] 20 percent.

Note.—Aggregate cost differential through 1999—$69.12 billion.

[Whereupon, at 1:10 p.m., the subcommittee was adjourned.]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

AGRICO CHEMICAL CO.,
Tulsa, Okla., August 1, 1983.

Hon. BOB PACKWOOD,
U.S. Senate,
Washington, D.C.

DEAR SENATOR PACKWOOD: I am writing to urge you to oppose in every feasible manner passage of the pending cargo preference legislation, especially the Competitive Shipping and Shipbuilding Act of 1983 (S. 1000). As you know, the stated purpose of this legislation is to develop a United States flag merchant fleet and stimulate the United States shipbuilding industry by requiring that twenty percent of all shipborne bulk commodity exports and imports be carried aboard United States vessels.

As a major producer of phosphate and nitrogen fertilizers, Agrico Chemical Company, a subsidiary of the Williams Companies, traditionally has exported over 2.5 million tons of fertilizer bulk commodities per annum. It is Agrico's experience that the fertilizer markets are very sensitive to freight rates charged for moving products: No matter how price competitive the United States fertilizers may otherwise be, United States producers will not be able to compete in foreign markets if the delivered price of the United States produced fertilizer in those markets is artificially raised by the inclusion of an exorbitant freight rate. As the examples we cite below will show, United States flag ships are often 300 percent more expensive than foreign flags—not even remotely competitive with foreign flag ships. Reserving specific market shares for United States flag vessels will not increase their efficiency nor their competitiveness; rather, it will simply allow United States shipping companies to continue their uneconomic freight charges without regard for the market forces that would otherwise forge a competitive United States merchant fleet.

While Agrico agrees that development of a United States flag fleet of bulk carriers is a worthwhile goal, we are convinced that cargo preference laws cannot achieve their stated aim of increasing jobs or increasing the United States flag merchant fleet. Any short-term increase in employment in the shipping or shipbuilding industry is bound to be offset by a larger decrease in exporting industries as United States products become priced out of the market due to excessive shipping costs. In the long-term, there will be no net increase in the shipping and shipbuilding industry because the higher shipping costs will simply cause the overall volumes of exports and imports to contract, resulting in a lower overall demand for United States flag ships.

The bulk commodities industries are hardly in a position to absorb such losses simply in order to prop up the United States shipping industry. In the fertilizer year 1980-1981 US exports of fertilizer totaled 27,000,000 metric tons, while in the fertilizer year 1981-1982 US exports totaled 21,000,000 metric tons, a drop of 29 percent. In dollars, US exports for the fertilizer year 1980-1981 amounted to 3.2 billion dollars, while in fertilizer year 1981-1982 the amount was 2.5 billion dollars, a drop of 21 percent. A recent Chase Econometrics survey of the United States nitrogen fertilizer industry indicated that over sixty United States nitrogen fertilizer plants have closed down due to the depressed agricultural economy. There is a similar depression in the phosphate industry where in Florida, unemployment has reached twenty-five percent of the phosphate labor force. The present state of depression in the farm and fertilizer economy has been exacerbated in part by the softness in export markets cuaused by the world recession and the high value of the dollar which increased the competition from Europe and other sources. Agrico Chemical Company lost approximately $30 million in 1982 and projections for 1983 are no better. Increased freight rates for United States exports will only depress the agricultural and agricultural supply industries further.

If our concerns appear to be exaggerated, consider the following examples: In July, 1982, United States AID held a fertilizer tender for the Government of Pakistan. The most competitive foreign flag rate was $22.50 per metric ton of product (from the United States Gulf to Pakistan); however, the most competitive United

States flag rate was $108.50 per metric ton. Since this commodity tender was funded by United States AID, United States flag vessels were used to ship fifty percent of the total tons awarded, although their rate was nearly 400 percent higher. In May, 1983, United States AID held a fertilizer tender for the Government of Bangladesh. The most competitive foreign flag rate was $46.75 per metric ton of product (United States Gulf to Bangladesh); the most competitive United States flag vessel rate was $134.50 per metric ton. Once again, fifty percent of the total tons awarded went to the United States flag vessel, at the expense of the American taxpayer. This freight differential substantially reduced the amount of fertilizer purchased and shipped to Bangladesh since available United States AID funds cover both product and freight.

United States phosphate rock producers currently receive approximately $30 per metric ton for the phosphate rock we export. To be competitive with the government-owned phosphate rock exporters located in such countries as Morocco, Tunisia and Jordan, the United States producers have to be able to deliver phosphate rock at $52 to a typical destination like Karachi, Pakistan. This is only marginally possible at the average $22.50 freight rate using foreign flag vessels. Obviously, the United States phosphate rock producer could not compete in that market if forced to pay a $108.50 per metric ton rate for United States vessels. Even if "only" 20 percent of our rock exports have to be carried on United States vessels, the average freight rate would be a prohibitive $39.70 (20 percent × $108.50 + 80 percent × $22.50).

In summary, we at Agrico urge you to oppose S. 1000 and other similar cargo preference bills for the simple reason that any such legislation will ultimately be self-defeating because it will devastate the very industries on which bulk cargo carriers depend. The United States shipping industry cannot hope to regain its market share of United States exports unless there are exports left to carry. Agrico would welcome the opportunity to share additional information in more detail with you or your staff at your convenience. If we can be of any further service, please do not hesitate to contact us.

Sincerly,

D. W. Calvert,
Chairman of the Board and
Chief Executive Officer.

American Institute of Merchant Shipping,
Washington, D.C., September 14, 1983.

Hon. Ted Stevens,
Chairman, Merchant Marine Subcommittee,
U.S. Senate, Washington, D.C.

Dear Mr. Chairman: The American Institute of Merchant Shipping (AIMS) is a national trade association representing 30 U.S. flag shipping companies which own or operate approximately 12 million deadweight tons of tankers, dry bulk carriers and other oceangoing vessels engaged in the domestic and international trades of the United States.

This is in reply to your letter of August 19, 1983, inviting AIMS to appear as a witness on the several cargo preference bills set out therein. For differing reasons, the bill that most impacts upon our membership is S. 1616 and we would like to submit this letter for insertion in the record of your hearings on September 27 and 29, 1983. This should save time and we would hope contribute to the efficiency of your hearings. I would like to comment as follows on S. 188, S. 206, S. 1616 and S. 1624 (including amendment #1516).

S. 188 would require that certain United States mail be carried on vessels of U.S. registry and sets certain conditions for this carriage. As mentioned above, the tonnage of AIMS' members is primarily dry and liquid bulk cargo, predominantly in the U.S. domestic trades. This tonnage is not common carrier tonnage as defined in Section 405(e) of Section 1 of the bill. S. 188 contemplates the carriage of U.S. mail in regular service on U.S. liner vessels and, indeed, the bill even specifies the carriage of U.S. mail in cargo containers—now the backbone unit of U.S. liner service carriage. Although S. 188 does not apply directly to our membership, we see no reason not to support this measure which would provide cargo for another segment of our beleaguered merchant marine fleet.

AIMS supports S. 206 since it would strengthen the government-impelled cargo preference programs of Section 901 of the Merchant Marine Act of 1936, as amended, by focusing the administration of these programs through regulations promulgated by the Secretary of Transportation. It has become clear over the years that the U.S. flag fleet has been disadvantaged by carrying a lesser percentage of cargoes than mandated by the cargo preference statutes because of the fractionalized nature of the administration of these government-impelled cargo programs. There has been no simple, clear, concise policy with respect to these programs because of the diversity of the departments and agencies administering them. S. 206 would remedy this by concentration of the regulation of the administration of these programs in the Department of Transportation. This is long overdue!

Since some of our members strongly favor S. 1624, the commercial cargo preference proposal, and some of our members just as strongly oppose it, AIMS' Board of Directors has determined that AIMS should take no position on S. 1624 or its House counterpart. Our individual member companies will support or oppose according to their preference.

S. 1616 designed to improve, consolidate and modernize the existing cargo preference laws is the bill of greatest concern to us. We are all too well aware of the difficulties encountered over the years by the U.S. maritime industry with respect to the adherence to the government-impelled cargo preference laws by the various administering departments and agencies. We are also well aware, for example, of the problem of the AM General buses several years ago, being built in Europe under a U.S. government program and shipped to this country in non-U.S. flag vessels, as well as the disputes on the concessional role of government-owned butter to New Zealand and the purchase of bauxite from Jamaica for our national defense stockpile. More recently, in this present Congress, there was the controversy over the Agriculture Department's sale of wheat flour to Egypt which was not resolved until the President intervened and ordered USDA to comply with the Cargo Preference Act of 1954.

Inasmuch as S. 1616 attempts to revise and consolidate the existing government-impelled cargo preference laws and seeks to restore government cargo preference as an effective and efficient program of support for our merchant fleet, we support it.

I would like to comment on several aspects of the bill. With respect to U.S. flag freight rates under the cargo preference programs, the bill suggests some new approaches, for example, for liquid or bulk carriers over 15 years the rates do not exceed an amount equal to 150 percent of the world rate for transporting the same or similar cargo, and for vessels under 15 years the rates are fair and reasonable for U.S. flag commercial vessels of that size or type carrying the same or similar cargo. We believe that this provision could be subject to abuse and might also yield unworkable results on occasion. We therefore request the opportunity to work with the Committee staff to develop a more efficient approach, and would like to provide the expertise of some of the operating personnel of our member companies who are knowledgeable in this freight rate area.

Also, it appears to us that the provision mandating all national security cargo to U.S. flag vessels goes much beyond existing government-impelled cargo preference laws. If one reads the General National Security Provision at the beginning of the bill with Section 7(a)(1)(E) which permits the President to certify almost anything "as affecting the national security of the United States," it seems clear that this is a wide open cargo perference mandate. We think this will create increased and unwanted opposition to the bill.

In addition, there are some significant differences between S.1616 and its House counterpart, H.R. 2692, which we applaud. For example, we are extremely pleased that S.1616 does not repeal the "three year rule" for foreign built vessels and does not impose a 25-year old age limitation on vessels eligible to carry cargoes pursuant to this Act. Also, we think that you are correct in not including in S. 1616 the concept that at least 10 percent of all waterborne cargo subject to this Act be routed to the four coasts of the U.S. We think it is quite clear, for example, that Strategic Petroleum Reserve (SPR) cargoes will not go in or out of the Great Lakes or the Pacific Coast. Although these troublesome provisions are not included in S.1616, they are contained in H.R. 2692 and have been inserted in past authorization bills; I would therefore like to comment further upon them, especially as they are contained in H.R. 2692.

The intent voiced is to eliminate the existing three year waiting period set out in Section 901(b) of the Merchant Marine Act of 1936, as amended, for the carriage of government-impelled cargoes in U.S. flag vessels which are foreign built. As we understand the provisions of H.R. 2692, and the provision in last year's authorization bill, this three year waiting period would be eliminated and a vessel not built in the United States could be reflagged, and if it is not more than five years old would be immediately eligible to carry these government-impelled cargoes. In addition, the bill provides that for a vessel more than five, but not more than ten years old, government-impelled cargoes could be carried without waiting for the three year period if the Secretary of Transportation, in consultation with the Secretary of Defense, certifies that the vessel is needed for the national defense. This provision applies for foreign built vessels issued a certificate of documentation under Section 107 of the Vessel Documentation Act either prior to the effective date of this Act or on or after the effective date of this Act. In essence, these objectionable provisions would permit the immediate eligibility of a reflagged foreign built vessel for the preference trades. We, of course, have registered our complete disagreement with this provision of H.R., 2692 and expressed our total opposition to it.

This is not a new concept; it has been before us in the last Congress when it was advocated by the Administration and some elements on Capitol Hill. The owners of unsubsidized bulk vessels which traditionally operate in these preference trades and who would be directly impacted by this reflagging and immediate eligibility have expressed their opposition to this concept in every forum available to them in the past.

Contrary to the assertion of the proponents, especially within the Administration, that this concept is necessary to promote a "strong, modern and efficient merchant marine," the proposal will go a long way toward destroying the existing unsubsidized portion of the U.S. flag tanker and dry bulk fleet. It is noted that this immediate cargo preference eligibility as set out up to this point would apply to vessels of all types—dry bulk and liquid carriers as well as liners. Our interests are specifically with respect to dry and liquid bulk carriers. We do not want this three year waiting period eliminated with respect to dry bulk and liquid carriers. As to the elimination of this three year waiting period for liner vessels, we take no position and have so stated on all occasions. The possible effects of this legislation as to tankers, where the investment now verges on $4 billion, as well as dry bulk carriers, is considerable. It would, in effect, permit reflagged foreign built tankers and bulk carriers obtained in today's depressed bulk market to compete on a head-to-head basis in these preference trades with U.S. tankers and bulk carriers which have been built at full American costs and for which the preference trades constitute a major fall-back market when oil cargoes are temporarily diminished because of the cyclical aspects of the market, or are not available at all.

Our opposition to the elimination of the three year waiting period has been based on several factors:

1. There is an adequacy of U.S. flag tanker and bulk carriers in the preference trades which argues against broadening the supply by introducing reflagged foreign built vessels into these U.S. trades. The oil market has been extremely depressed for some years now, resulting in bargain prices and in a high level of vessel lay-ups and scrappings. Any newly acquired vessel would be virtually unable to compete in the world market under the U.S. flag, with higher operating costs; such foreign built vessels would of course be ineligible for the domestic trade, therefore the only possible market would be the preference trades.

2. Demand for tankers in the U.S. preference trade is limited. The Public Law 480 grain trades declined from over 50 million tons in the early 1960's to 3.2 million tons in 1980, and will remain at that approximate level to the end of fiscal year 1983. A reasonable estimate of current demand in the portion of the Public Law 480 trade for which tankers are eligible is 300,000 DWT. As to the SPR, assuming a fill rate of 200,000 barrels a day, a reasonable estimate of the current tanker tonnage demand is about 500,000 DWT. This demand for tankers in the U.S. preference trades can be more than satisfied by the existing U.S. tanker fleet, as a result of a surplus of tankers of a size under 100,000 DWT in the Jones Act trades.

3. The supply of U.S flag tanker for the U.S. preference trades is more than adequate to meet demand. In this connection, MARAD projections show a large surplus of tankers most suited to the preference trades in the 40,000 to 99,000 DWT category, with 1,841,200 DWT in 1985 in surplus, rising to 2,408,800 DWT in surplus in 1990. MARAD also predicts a domestic trade surplus of 1,104,900 DWT in 1985 for tankers in the 20,000–39,000 DWT range.

4. Permitting reflagged vessels to become immediately eligible for the preference trades will displace American Flag bulk vessels which were built at full American costs and which would be unable to offset the competitive advantages of ships that can now be acquired at greatly depressed prices. It seems clear beyond question that unsubsidized bulk vessels cannot possibly compete with vessels whose capital costs are far less, whether because of subsidy or foreign construction.

5. The resulting displacement of U.S. built unsubsidized bulk vessels would jeopardize the Title XI mortgage guarantees. Our survey indicates that approximately 86 tankers and bulk carriers would be impacted by this reflagging and immediate eligibility proposal with a consequent Title XI exposure of approximately $1 billion.

With respect to the lay-up of our fleet, as of March 1, 1983, of a private fleet of 568 vessels, 108, ships are laid up, broken down as follows: three combination vessels, 44 freighters, three bulk carriers, 39 tankers, 14 container ships, two tug barges, and three liquid natural gas carriers. Thus, of these vessels laid up, 44 ships (tankers, bulk carriers, and tug barges) of this number are particularly able to carry preference cargoes in full ship load lots in the U.S. trades.

With respect to the applicable provisions of section 8 of H.R. 2692, we are convinced that the Secretary of Defense will on almost every occasion certify to the Secretary of Transportation that the vessel in question is needed for national defense. So, in effect, what we are talking about is eliminating the three year waiting period for foreign built vessels in this government-impelled cargo carriage and permitting any foreign built vessel up to ten years of age to engage in these preference trades immediately. There has been a great deal of loose talk about "rust buckets" in these trades. However, the facts are that a number of operators have very new tonnage in these trades but that they will not be able to compete with a foreign built vessel with lower capital and operating costs that may be anywhere from one to ten years of age. If the Congress is willing to establish an equalizing climate that would pay Korean wages in the shipyards and for ship operation, and to lower the U.S. standard of living to, for example, a Korean level, then it would make sense to do this. However, if we plan on retaining the U.S. standard of living and U.S. wages, then no one should expect a new U.S. vessel in these trades to compete with a new foreign built vessel on a head-to-head basis. These are just the facts of life.

We have also heard the argument made that this concept has merit because this provisions now assures that a foreign built vessel over ten years old will not be able to operate in the government-impelled cargo trades, whereas under the existing provisions of Section 901(b), after the three year waiting period expires, a foreign built vessel of any age would be eligible for these trades. This is comparing applies and oranges. The operative factor, of course, is the three year waiting period in the existing law. It soes not help the U.S. flag bulk operator to talk about putting a ten year age cut off on these foreign built reflagged vessels when you have eliminated the three year waiting period. What we are really talking about is this buffer of three years before a foreign built vessel can come into the trade and compete for this cargo. It is not really relevant to the basic issue to argue that we are putting a ten year age cap at the other end of thsed foreign built reflagged vessels

In considering this three year waiting period elimination for foreign built reflagged bulk vessels and tankers last year in the 97th Congress, AIMS' position was to retain the three year waiting period for such vessels in the future. This is still our position. This position was agreeable to all House conferees. However, in conference, a compromise urged by the Administration was accepted which gave priority access to such cargoes to U.S. built and those previously qualified foreign built vessels, assuming that they are available at fair and reasonable rates for U.S. flag commercial vessels. The compromise also required that foreign built vessels must be less than three years of age at the time of acquisition to qualify immediately. Finally, any vessel acquired under this temporary authority would be prohibited from transferring out to foreign flag during its full economic life, unless approved by the Secretary of Transportation under Section 9 of the 1916 shipping Act. Although we were willing to accept this proposal at the time, we much prefer S. 1616 as it exists, i.e., with the existing three year waiting period remaining intact.

Another aspect of H.R. 2692 with which we disagreed was Section 8(A)(3) which provides that a vessel more than 25 years old would not be eligible to carry government-impelled cargoes. This provision defines a "United States flag vessel" as a vessel "that is not more than 25 years old, or, if more than 25 years old, is within five years of having been substantially rebuilt and certified by the Secretary as having a useful life of at least five years after that rebuilding. . . ."

We interpret this provision to mean that if there is a vessel older than 25 years but it has been substantially rebuilt within the last five years and is certified as having a useful life of at least five years after that rebuilding, then it would be eligible. We are submitting with this statement for the record a list of vessels (as of May 1983) of AIMS members which are 25 years old or more. As will be noted from the list, this covers some 53 vessels. As also noted from the list, some 27 of these vessels have been rebuilt. However, only two of the 27 were rebuilt in the last five years. Obviously the customary and practical practice is that these types of vessels are rebuilt or modified at or near the mid-term of their existence, but not at the end. As a consequence, this provison providing for rebuilding within the last five years does not work, and is a severe and unfair penalty. We would strongly recommend that the entire 25 year restriction be deleted from the bill. We submit that defining the eligibility of U.S. flag bulk vessels should not be on the basis of age, but rather more appropriately on the condition of the vessel. Obviously we prefer no such age limitation provision, as S.1616 was introduced. However, if such a provision should appear, it should be modified to take into account the practice of rebuilding or modification at the mid-term of vessel life, so that if a vessel is rebuilt at any time in its existence, it will be eligible to carry these cargoes.

Needless to say, we could not and cannot support a general proposition that some 53 of our members' vessels be legislatively declared by fiat ineligible for the carriage of government-impelled cargo. Who are the legislators to say that this or that combination of steel is no good? We certainly agree that ultimately a ship may be declared too old or unsafe, but we have rules of classification societies and the Coast Guard constituted to do just that. It is, of course, true that there are old vessels which have been under-maintained, but there are also many older vessels which have been maintained by their owners, are in excellent condition, and are safe vessels and good ships. I think we all agree that the Port and Tanker Safety Act and its amendments will weed out the so-called "rust buckets."

There are no quick fixes or quick solutions to this complex and complicated problem so good vessels should not be legislated out of competition for a cargo trade just because they are old. The fundamental question, of course, is how to assure safety at sea. We think the question should be addressed directly and not by legislation. As I have mentioned, we have classification societies and the Coast Guard with extensive rules and regulations to pass on the age, safety and seaworthiness of vessels. We do not think that this should be substituted for by the subjective legislative process which is really not constituted to address this problem.

This concept is just one more attempt to eliminate older vessels in the name of safety and getting rid of "rust buckets," whether in fact the older vessel is a good vessel or not. It has been said quite plainly within the Administration in the last two years that it would be in the best interests of the U.S. flag merchant marine to eliminate the "rust buckets" and replace them with new modern efficient vessels. That is a laudable goal as far as it goes. However, we submit that if you arbitrarily wipe out all the old ships without need or justification, then no one will invest—new ships will not necessarily be built under these circumstances. We know that it is the desire of the Administration and this Congress to rebuild the merchant marine and have a modern efficient fleet. However, it must be realized that under the present climate no bulk carrier entrepreneur will invest in the future in the U.S.-flag merchant marine. Ten years ago or eight years ago they would invest. Today with the threat of the export of Alaskan North Slope oil, the disastrous CDS payback proposal and efforts to eliminate vessels still in good condition simply because they are old, all form a climate or environment, if you will, under which no bulk carrier owner will invest. This must be realized, Mr. Chairman, and steps taken or else there simply will not be any more investment or building in the bulk carrier section of the U.S.-flag fleet. The idea is to encourage future investment and building in this area—not make it impossible.

I hope that our comments will be helpful to your Subcommittee in their deliberations, Mr. Chairman, and once again thank you for the opportunity to have our remarks inserted in the record of hearings on these important cargo bills.

Sincerely,

W. M. BENKERT, *President.*

Attachment follows:

Name	Deadweight tons	Built	Rebuilt
American Trader	27,615	1943	1967
Baltimore Trader	57,884	1955	1971
Texas Trader	27,500	1944	1969
Amoco Delaware	27,770	1944	1971
Arco Endeavor	31,816	1958	
Hillyer Brown	17,710	1953	
Coastal Kansas	28,029	1958	
Exxon Bangor	28,163	1953	
Exxon Chester	28,583	1952	
Exxon Gettysburg	39,029	1957	
Exxon Huntington	28,112	1953	
Exxon Jamestown	40,872	1957	
Exxon Lexington	40,910	1958	
Exxon Newark	28,553	1952	

Name	Deadweight tons	Built	Rebuilt
Exxon Washington	40,933	1957	
Cove Liberty	69,306	1954	1974
Louisiana Getty	25,088	1944	1968
Wilmington Getty	25,184	1944	1968
Baldbutte	33,477	1958	
Keystoner	18,424	1953	
Fredericksburg	39,374	1958	1980
Alaskan	24,437	1944	1969
Marine Chemical Transporter	15,696	1943	
Marine Duval	24,693	1944	1970
Marine Floridian	24,838	1944	1967
Marine Texan	24,252	1945	1964
Marine Eagle	26,021	1944	1969
Mobil Fuel	31,145	1957	
Mobil Gas	28,608	1956	
Mobil Lube	31,145	1958	
Connecticut	38 240	1958	
Overseas Aleutian	39,838	1953	1971
New Jersey Sun	31,891	1953	
Tropic Sun	34,723	1957	1983
Western Sun	31,828	1954	
Texaco California	39,249	1954	1973
Texaco Connecticut	39,366	1953	1971
Texaco Florida	39,373	1956	1971
Texaco Kansas	24,480	1943	1960
Texaco Minnesota	26,724	1943	1964
Texaco Mississippi	26,588	1944	1964
Texaco New Jersey	20,806	1944	1959
Texaco New York	39,363	1953	1972
Texaco Wisconsin	34,770	1958	
Bordeaux	27,154	1945	1965
Pasadena	27,038	1945	1965
Houston	27,047	1942	1962
David D. Irwin	25,682	1942	1961
USNS Robert Craig	10,800	1943	
Lion of California	16,649	1954	
Mission Santa Clara	35,018	1957	
Gulf King	34,723	1957	
Gulf Knight	34,723	1958	

UNITED STATES GREAT LAKES SHIPPING ASSOCIATION,
Chicago, Ill., September 27, 1983.

Hon. TED STEVENS,
Chairman, Senate Merchant Marine Subcommittee,
Russell Senate Office Building, Washington, D.C.

DEAR SENATOR: The United States Great Lakes Shipping Association, representing vessel owners and operators engaged in the international Great Lakes trades, wishes to comment on S. 1624, and to have this written testimony included in the appropriate hearing record.

When the original Competitive Shipping and Shipbuilding Act of 1982 was introduced in the House by Congresswoman Lindy Boggs, the Association went on record in opposition to the Bill because of our fear that its diversionary nature would cause foreign carriers serving Great Lakes ports to withdraw their services, leaving the Great Lakes without sufficient bulk carriers to foreign ports. (There is no American flag international bulk service in the Great Lakes.) We again expressed this concern when the 1983 version, H.R. 1242, was introduced and I now want to express our concerns raised by S. 1624, to you.

Unless S. 1624 requires American flag carriers to put ships *into* the Great Lakes to load/unload the cargoes which they will carry as a result of enactment of the Bill, the Great Lakes—shippers, receivers, port facilities and providers of shoreside maritime services—will soon lose their direct water link to foreign ports and markets.

A copy of our letter to members of the House Merchant Marine Subcommittee is enclosed for your information. This letter outlines our concerns about S. 1624 as well, since the Senate Bill has provisions similar to H.R. 1242.

Also enclosed is our written testimony, for the record.

Since we were not allowed to participate in hearings held on S. 1624 on September 27th and 28th, I hope you will consider our written comments during your deliberations on this important legislation.

Cordially,

VERA PAKTOR,
Executive Director.

JOINT MARITIME CONGRESS,
Washington, D.C., September 29, 1983.

Hon. TED STEVENS,
Chairman, Subcommittee on Merchant Marine, Committee on Commerce, Science, and Transportation, Russell Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: On behalf of the Joint Maritime Congress, an association representing more than a hundred U.S.-flag steamship companies that operate in the domestic and foreign trades of the United States, I would like to register our strong opposition to S. 1197. The measure now before your Subcommittee would permit two foreign-built passenger vessels, the *Cunard Countess* and the *Cunard Princess*, to be "re-flagged" as American vessels, granting them the privilege of operating in our protected coastwise trades. We speak out against this proposed legislation for two reasons—one, for the health and future of our country and our merchant and passenger fleets, the Jones Act should not be undermined, and two, we must develop a cohesive national policy on foreign construction of vessels to be flying our flag instead of addressing this dilemma on a slipshod case-by-case basis.

There is no need to repeat what has been said time and time again about the integrity of the Jones Act—that it cannot be watered down if we are genuinely committed to maintaining a strong domestic fleet capable of providing economic and national security benefits. What does need to be clearly stated, however, is that an exception to the cabotage principle, recognized by our country since 1793 and in its current form since 1920, would not provide the national security benefits alleged by proponents of this legislation.

Jones Act principles, based in large part upon national security considerations, contribute far more to our security than admission of these vessels into the trade possibly could. The Department of the Navy, on behalf of the Defense Department made that quite clear in its response to Cruise American Lines, Inc's petition to waive Jones Act restrictions for the *Cunard Princess* asserting that "* * * it is not apparent that permitting the *Cunard Princess* to operate in the U.S. coastwise trade would provide a clear and direct [national defense] benefit to the Department."

The argument that operation of this vessel and the *Cunard Countess* in the domestic trades would strengthen our military preparedness by adding sealift and hospital ship capacity at times of national emergency is without basis and a smokescreen. In this case, national security is being used to mask what is actually commercial opportunism. Proponents of this legislation are not motivated by either the integrity of United States law or our national defense posture. National defense serves merely as an excuse to embark on a venture which would in fact further the interests of one individual, and, allegedly, a foreign corporation that cynically exploited U.S. maritime policies in the past. Furthermore, passage of this legislation will stifle entirely the future for new U.S.-built, U.S.-flag passenger ships.

Additionally, to make matters worse, we continue to lack a national policy on foreign construction or acquisition of vessels to be registered under the U.S. flag in our U.S. foreign commerce where "re-flagging" is essential. This larger question, looming in the minds of all U.S. operators, must be a top priority of the Subcommittee. Furthermore, when examining S. 1197, it is important to note that the measure involves re-flagging foreign-built vessels for the domestic trade—not the international trade, where we do face competition from foreign operators with foreign-built vessels. Under these circumstances, it is certainly impossible to justify an exception to the law.

In conclusion, we at the Joint Maritime Congress urge that the Merchant Marine Subcommittee reject S. 1197. The measure would not enhance our national security position and it precedes when it should follow the overriding build-abroad question. Your consideration of our position on this matter is greatly appreciated.

Sincerely,

David A. Leff,
Executive Director.

Association of American Railroads,
Washington, D.C., October 4, 1983.

Hon. Ted Stevens,
Chairman, Subcommittee on Merchant Marine, Committee on Commerce, Science, and Transportation, U.S. Senate, Washington, D.C.

Dear Mr. Chariman: On September 29, 1983, the Subcommittee on Merchant Marine held hearings on S. 1624, the "Competitive Shipping and Shipbuilding Act of 1983." The Association of American Railroads did not testify at the hearings but wouldd now like to present for the record, the views of the Nation's railroads on S. 1624.

Basically, S. 1624 would require that 20 percent of all bulk cargoes move by water and imported to or exported from the United States must be carried on U.S. flag vessels within 15 years after enactment.

The major issue in consideration of this legislation, from the railroads' perspective, is the economic impact a cargo preference requirement would have on U.S. exports of bulk cargoes, especially coal and grain. These two commodities alone account for more than one-third of railroad traffic and a significant proportion of that coal and grain is destined for export.

A cargo preference requirement would significantly increase the costs of transporting U.S. bulk exports and make those exports less competitive in the world market. Therefore, the Association of American Railroads strongly urges that S. 1624 not be reported.

Sincerely,

William H. Dempsey.

Department of Transportation and Public Facilities,
Office of the Commissioner,
Juneau, Alaska, October 6, 1983.

Hon. Ted Stevens,
Chairman, Merchant Marine Subcommittee, Senate Committee on Commerce, Science, and Transportation, Russell Office Building, Washington, D.C.

Dear Senator Stevens: We appreciate the opportunity to comment on S. 1624. The State of Alaska is strongly opposed to any attempts to apply cargo preference requirements to our exports to Pacific Rim nations. Alaska is just beginning to market its abundant resources in highly competitive international markets. Our exporters must already combat severe climatic conditions, lack of infrastructure, and high labor costs in fighting for a share of these markets. The higher costs of using U.S. flag carriers would severely impact potential exports and place Alaska at a competitive disadvantage relative to other Pacific Rim exporters.

The development and export of Alaska's resources will contribute substantially to the U.S. balance of trade. Timber exports currently amount to 80 million dollars per year, while potential coal exports from the Beluga area could amount to hundreds of millions of dollars annually. As the state's economy develops, other types of products and commodities may prove to be viable for export. The several "world class" hard rock mineral deposits that have been discovered in Alaska are striking evidence of this potential. We believe the coal exports to Korea that are slated to begin next year could be a precursor of what lies ahead for Alaska.

Our concerns about the legislation's negative impacts on national trade policy are shared by a wide variety of economic groups. Along with Alaskans, the millions of Americans currently employed in the agricultural, chemical, mining, and forest products industries would be harmed by cargo preference legislation. Representatives of those industries have previously testified against such legislation and have presented strong evidence of its deleterious effects on their ability to compete in international markets.

We do recognize the current crisis in the nation's maritime industry, and the need for Congressional action in that area. However, we do not believe that burdening the nation's current and potential exporters with increased transportation costs is an equitable or wise way to accomplish the worthy goal of revitalizing the maritime industry.

In closing, I urge your opposition to the aplication of cargo preference requirements to exports. I have attached the state position paper on cargo preference for your information. Thank you for the opportunity to comment on this legislation.

Sincerely,

Daniel A. Casey,
Commissioner.

Attachment.

STATE OF ALASKA POSITION PAPER—CARGO PREFERENCE LEGISLATION

The State of Alaska is opposed to efforts to extend cargo preference provisions to exports shipped by the private sector. Such a move will cut into markets for American goods abroad by raising shipping costs to foreign ports. It will hinder attempts by Alaskan firms to be competitive in the supply of grains, coal and timber products to overseas trading partners. Such a change is especially unwise when the size of the deficit in the U.S. Balance of Payments continues to grow.

Cargo preference law mandates that a set percentage of a distinct type of cargo be shipped on vessels built in the U.S. and operated by U.S. firms. A law passed in 1954 requires that 50 percent of the government-impelled cargoes be carried by such vessels. Current proposals would extend this coverage to all dry-bulk shipments, even if shipped by private firms. Obviously, such a requirement constitutes overt intervention by the federal government in the private marketplace. Proponents of such intervention justify if by citing its benefits to the U.S. Merchant Marine and its contributions to national security. Cargo preference laws affect exports differently from imports.

Dry bulk exports are particularly sensitive to the increased shipping costs that the proposed legislation would bring about. In many cases the transportation costs exceed the initial expenses of preparing a commodity for shipment. Transportation costs are a key determinant of marketability for the dry bulk commodities which Alaskan firms wish to export. A resource based economy such as Alaska's will be especially hard hit by applying cargo preference requirements to exports.

The United Nation's Code of Conduct for Liner Conferences comes into effect this October and mandates cargo preference for its signatories. The key provision of this code does not refer to either exports or imports, but only to international commerce. Thus, if this country chose to, it could meet the provisions of this code by applying cargo preference only to imports. However, to apply such a requirement to exports will lead to a shrinking of U.S. export opportunities. This is an approach the State of Alaska can not support.

NATIONAL GRAIN & FEED ASSOCIATION,
INTERNATIONAL TRADE COMMITTEE,
Washington, D.C., October 12, 1983.

Hon. TED STEVENS,
Chairman, Subcommittee on Merchant Marine, Committee on Commerce, Science, and Transportation, U.S. Senate, Washington, D.C.,

DEAR MR. CHAIRMAN: The National Grain and Feed Association takes this opportunity to reiterate its long-standing opposition to cargo preference, and to urge the Congress not to further expand the application of these laws to include U.S. commercial trade.

The National Grain and Feed Association is a voluntary accociation of grain and feed firms. The operations of our 1,250 members include country elevators, terminal operators, processors and exporters. There are 45 state and regional grain and feed associations affilitated with the National Grain and Feed Association that represent upwards of 10,000 grain and feed companies nationwide.

Two bills—S. 1624 and S. 1616—being considered by the Subcommittee on Merchant Marine are of particular concern to the National Grain and Feed Association. S. 1624 would expand the proportion of U.S. ocean-going trade subjected to cargo preference from the current level of 3.5 percent to 20 percent by the year 2000. More importantly S. 1624 would expand the application of cargo preference to include, for the first time, all U.S. ocean-borne export trade of bulk commodities, including private commercial sales.

S. 1616 also attempts to apply cargo preference to commercial export sales by requiring that 50 percent of the shipments facilitated in any way by U.S. government financing be shipped on U.S.-flag vessels. This would subject to cargo preference half of all commercial sales in which government credit or financing is involved — be it loans, credit guarantees or direct credits.

We believe that the record of existing cargo preference laws, which in agriculture apply to U.S. government concessional sales and food-aid shipments, demonstrate the increased shipping costs that have resulted from this policy. U.S. Department of Agriculture statistics indicate that since cargo preference was first applied to the government's Public Law 480 Food for Peace Program in 1955, shipping costs have mushroomed from $9.6 million to $314.4 million in 1982. During the same span, the value of commodities purchased under Public Law 480 increased from $206.2 million to $1.03 billion. Thus, the share of shipping costs in relation to the total Public Law 480 program expanded from 4 percent in 1955 to more than 30 percent by 1982.

We believe that a further expansion of this flawed policy would be particularly ill-advised and disruptive to U.S. agriculture considering the current condition of world agricultural trade. A combination of the world recession, relatively high value of the dollar and other factors already have lowered projections for U.S. agricultural trade from $39.1 billion in fiscal 1982 to $34.5 billion for fiscal 1983. For agricultural exporters, farmers and the entire grain marketing chain, the increased costs of shipping on less efficient U.S.-flag vessels would be an additional burden on commerce. And it would come at a time when concerted efforts are under way to expand U.S. agricultural exports. Such an expansion in the cargo preference requirement, because of its inherent costs, would be a devastating blow to the competitiveness of U.S. agriculture in the world market, resulting in extensive losses in our export trade and seriously affecting the U.S. balance of payments.

Suffice it to say that the U.S. merchant marine is not competitive and cannot become competitive with shipbuilding costs and ship operating costs standing at two to three times the comparable costs in foreign nations. If the Congress decides that the U.S. merchant marine can and should be made competitive by concerted actions of the shipyards and ship operators, and that a subsidy payment is necessary, such a subsidy should be made directly and not be disguised in the form of cargo preference, whose increased shipping costs are paid by the shipping community. The efficient sectors of the U.S. economy, including agriculture, should not be burdened with bearing the costs of such a subsidy.

The National Grain and Feed Association supports S. Con. Res. 56, which expresses the sense of the Congress that a further expansion of cargo preference, whether for commercial or other trade, is not in the interest of the United States and should not be imposed.

We respectfully urge that the Subcommittee defeat attempts to further expand cargo preference to commercial sales, and ask that this statement be made part of the hearing record.

Sincerely yours,

BERNARD STEINWEG, *Chairman.*

DEPARTMENT OF STATE,
Washington, D.C., October 13, 1983.

Hon. BOB PACKWOOD,
Chairman, Committee on Commerce, Science, and Transportation,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Enclosed herewith is a copy of an aide memoire that the Department of State has received from the Governments of Denmark, Finland, France, Greece, Italy, Japan, the Netherlands, Norway, Sweden, and the United Kingdom concerning a bill introduced in the United States Senate, S. 188. This bill provides for United States flag preference for the carriage of certain United States originating international sea mail. The Governments noted above have requested the Department to bring their strong concern about the bill to the attention of the Senate Committee on Commerce, Science, and Transportation.

With cordial regards,

Sincerely,

ALVIN PAUL DRISCHLER,
Acting Assistant Secretary,
Legislative and Intergovernmental Affairs.

Enclosure.

Aide Memoire

The Governments of Denmark, Finland, France, Greece, Italy, Japan, the Netherlands, Norway, Sweden and the United Kingdom ("the Governments") present their compliments to the Department of State and have the honour to refer to a bill introduced in the United States Senate, S. 188, which provides for United States flag preference for the carriage of United States-originating international sea mail. The Governments understand that present U.S. law allows foreign flag carriers to compete for the carriage of such mail.

The Governments wish to state that their postal authorities do not give preference to their own national flag carriers and that they would consider the re-introduction of such preference by the United States as a most undesirable development. Such United States action would encourage other countries to enact similar openly protectionist laws to the obvious detriment of commerce trade and private citizens, who are best served when the postal authorities are free to use carriers offering the best combination of service and price, irrespective of flag.

The Governments also draw attention to the Aide Memoire which they submitted on 7 June in which they drew attention to the serious implications which any extension of cargo preference would have for the discussions currently underway between the U.S. and countries of the Consultative Shipping Group on reciprocal guarantees of competitive access to shipping trades.

The Governments have noted with satisfaction that both the Administration and the U.S. postal service have testified against S. 188. They would be grateful if the State Department would bring their own strong concern about the bill to the attention of the Senate Committee on Commerce, Science and Transportation.

Statement of Paul J. Burnsky, President—Metal Trades Department, AFL–CIO

Mr. Chairman, these views are presented in behalf of the 5 million members of the 22 national and international unions that make up the AFL–CIO Metal Trades Department. A list of these affiliated unions is attached to my statement. Our Department represents U.S. naval shipyard workers and most production workers in the major commercial shipyards under collective bargaining agreements negotiated by our various Metal Trades Department local and district councils.

We appreciate your action in scheduling these hearings on the important legislation before the Subcommittee. Unfortunately, the dates coincided with our 75th Anniversary Metal Trades Department convention in Hollywood, Florida so that it is necessary to submit this statement for the record instead of testifying in person before the Subcommittee. We are vitally concerned over the decline in shipbuilding jobs and the deterioration of the American shipbuilding industry and our U.S. Merchant Marine. We have been actively working in support of remedial legislation in the Congress. The meeting of our Second National Shipbuilding Conference in November, 1982 in Washington and the policy recommendations made by delegates of our affiliated unions at that Conference was called to your attention in your hearings on MARAD authorization and Construction Differential Subsidy legislation last April. Shipyard workers throughout the country subsequently signed a petition urging the implementation of our recommendations by the Congress, such petition having also been forwarded to this committee earlier this year. The work of your committee and its House counterpart is of utmost importance to our workers, the shipbuilding industry, and our national defense. We support constructive efforts to reverse the dangerous erosion of our shipbuilding mobilization base that seriously threatens our national security.

Mr. Chairman, as other witnesses supporting these bills before your Subcommittee have testified, a viable, healthy U.S. Merchant Marine must depend upon the availability of sufficient cargoes—both from commercial shippers engaged in world commerce and from government-impelled sources. Unfortunately, exporters and importers in the U.S. have increasingly relied on foreign-flag vessels over the past several decades. Thus, the amount of our foreign commerce conducted in U.S.-flag ships has shrunken from more than 40 percent in the 1950's to about 3 percent today. During the same period, U.S. government agencies have systematically evaded the laws governing the use of U.S.-flag vessels to carry government-impelled cargoes. The use of the "blended credit commercial transaction" in the shipping U.S. farm commodities to foreign nations is but the latest U.S.D.A. gimmick to subvert our cargo preference laws.

We therefore strongly support the enactment of Senator Inouye's two bills—S. 188 and S. 206. S. 188 would mandate that all U.S. mail destined for overseas delivery be shipped on U.S.-flag vessels. Why should our postal service help subsidize the merchant marines of foreign nations, including Communist-bloc countries, by granting them contracts to carry ocean surface U.S. mail? Yet, unless Congress enacts S. 188 the U.S. Postal Service will continue its present policy to do just that. We likewise are in full accord with the objectives of S. 206 to give the Secretary of Transportation the lead role in the administration of cargo preference laws. This measure, when combined with the important strengthening changes to our cargo preference policies affecting government-impelled cargoes as provided in S. 1616 and H.R. 2692, will help correct the flagrant evasions of such laws by Executive branch departments and agencies. The hearing record is replete with examples of bureaucratic duplicity in diverting various government-impelled cargoes from U.S.-flag vessels to those of other countries—thereby weakening our U.S. merchant marine and indirectly subsidizing those of foreign governments. If enacted, S. 206 and S. 1616 would reverse this dangerous trend and remove from the hands of the bureaucracy the power to negate the intent of Congress in enacting cargo preference legislation. We must assume that any Secretary of Transportation, when given the authority to determine in individual cases if a particular commodity or cargo is "government-impelled", will properly administer the law as Congress intends to help strengthen our U.S. maritime and shipbuilding capability. As has been pointed out earlier, cargo availability for shipment in U.S.-flag vessels is the necessary ingredient for once again building a strong and healthy U.S. Merchant Marine. The provisions of S. 188, S. 206 and S. 1616 will all be useful in the achievement of this objective. We trust that during the markup of these bills, language may be added to assure adequate enforcement authority for the Secretary of Transportation to prevent interdepartmental fights that could delay or thwart the basic intent of these measures.

Mr. Chairman, it is abundantly clear that the revitalization of our U.S. Merchant Marine and our shipbuilding mobilization base requires a multi-faceted approach. The problem is complex and ultimate solutions cannot be achieved overnight. No one bill provides all of the necessary components that are essential in forging a workable, comprehensive legislative package to deal with the many interrelated aspects of this problem. Competing national and international economic interests, our national security requirements, trade policies, shipyard modernization and productivity, the preservation of a skilled shipbuilding work force, tax policies, and foreign policy considerations are some of the essential elements that must be carefully weighed in the crafting of a viable legislative remedy. Certainly, this committee and its House counterpart are uniquely qualified to assume this complex leadership responsibility in our national interest.

We have heard witness after witness testify at these hearings and those conducted by the House committee that they "support the principle that we must have a strong U.S. Merchant Marine." On that point there seems to be little argument. However, opponents of cargo preference legislation and S. 1624 and H.R. 1242 that are designed to implement governmental policies to help achieve this universal objective then go on to deliver page after page of testimony filled with "buts". These "buts" add up to just one thing—the preservation of their sundry special interest, status quo methods of doing business—in oil, in coal, in fertilizer, paper products, farm commodities, etc.—at the expense of the overriding importance of the national interest and our security as a nation in a dangerous and troubled world.

Opponents of such vital legislation argue that their shipping costs would skyrocket many billions of dollars, that their exported products or commodities would no longer be competitive if delivered to foreign ports, that American farmers, or various producers, or consumers would end up being the victims of policies to rebuild our U.S. Merchant Marine, to preserve our shipbuilding industrial base and our skilled workforce, and to strengthen our national defense. Their hysterical allegations of economic disaster, supported by unrealistic or faulty economic "studies" cannot and must not be permitted to deter the Congress from its duty to respond to these national emergency responsibilities that are of such crucial importance to our long-range survival as a free nation. Certainly, no special economic interest—regardless of its political clout—can be permitted to thwart the overriding national interest.

These claims of opponents of this legislation and their various estimates of vastly inflated shipping costs if H.R. 1242/S. 1624 were enacted into law should be carefully examined in light of data contained in the recent study of this legislation by the Center for Naval Analyses. A copy has been made a part of this hearing record. The CNA study of shipping rates that would result from such legislation for the types of products and commodities carried in world commerce shows only marginal shipping rates increases—nowhere near the astronomical cost estimates presented to this committee by opponents of such legislation. Certainly, the CNA is grinding no special economic axe of its own in its shipping rate estimates and its findings must be given the credibility over estimates of those seeking to defend their own narrow special economic interests. It is an economic fallacy to utilize existing rate differentials between U.S.-flag and foreign-flag vessels as the basis for estimating shipping costs of any commodity when the provisions of H.R. 1242/S. 1624 are law and fully operable.

The CNA study, prepared for the Navy Department, concludes that this legislation would make possible the construction of about 329 new vessels over the next twenty years that would increase the size of our U.S.-flag merchant fleet by 40 percent and its tonnage by 60 percent. These new and efficient bulk cargo vessels would include some 214 dry bulk vessels of from 20,000 to 35,000 deadweight tons, equipped with their own loading gear—an essential feature for maximum use as naval auxiliary ships. The study observed:

"If the federal government does not act in a timely fashion, the U.S. merchant fleet probably will continue to decline, and the merchant fleet is the main source of vessels employed in support activities during a military emergency."

It went on to conclude that "H.R. 1242 would help preserve the industrial base of the United States for wartime expansion of the shipbuilding industry." It is clear that if this 98th Congress does not enact a comprehensive legislative remedy to deal with all of the elements of the defense, merchant marine, shipbuilding industrial base problem, vital facilities will be lost, irreplaceable shipyard labor skills will vanish, and our national security will be imperiled. What good does it do to spend hundreds of billions of dollars on weapons, ships, planes, and military manpower to strengthen our overall defense posture if we ignore the crucial need to supply our forces deployed around the world to help deter aggression? A military sealift capability and the preservation of our shipyard mobilization base is of critical importance in any global military defense plan.

The AFL-CIO Metal Trades Department and others who support this vital legislation fully recognize that national policies of such overriding importance require that all elements of our economy must bear their fair share of the burden. H.R. 1242/S. 1624 specifically require that major cost reductions take place in ship construction and in ship operation. Our yards must be more competitive and more efficient and I am certain that shipyard management and labor—working in close cooperation as we did in World War II—can achieve dramatic cost savings. Series construction of several vessels at the same shipyard, instead of "custom" construction of single ships, will spread the costs of equipment, engineering, and related costs. Raw materials, component equipment, and machinery to be installed on the ship could be bulk-ordered with additional cost savings; worker productivity would increase with the construction of each vessel of the series as skills are more precisely honed. Moreover, the long-range assurance of continued ship construction would result in a more stable workforce and provide the industry with sufficient financial incentive to invest in new, more efficient shipyard machinery and equipment.

This legislation will not only revitalize our merchant marine, preserve our shipbuilding industrial base, and strengthen our national defense, but will at the same time respond in a positive way to the need to preserve a skilled shipyard manpower supply. In recent years of economic decline in commercial shipbuilding orders, tens of thousands of skilled shipyard workers and workers in essential shipbuilding supply and support companies have lost their jobs. Enactment of H.R. 1242/S. 1624 would dramatically reverse the pattern of high shipyard unemployment by creating an estimated 18,000 new jobs in American shipyards and over 112,000 jobs in maritime related industrial sectors. Another 200,000 existing industry jobs would be preserved and another 9,000 shipboard jobs would be generated. Additional stimulus will be given the American economy by the increased demand for raw materials and thousands of components parts for the new vessels being built under this legislation. Unemployed shipyard workers wil be off compensation and again become taxpaying citizens and their income will create additional demands for all types of consumer goods and services.

Without Congressional action, the shipyard skilled workforce will continue to erode. It is clear that despite increased Navy shipbuilding as part of our defense buildup, only a revitalized commercial vessel construction program can assure an adequate trained shipyard workforce to fulfill our mobilization base requirement. A recent study of the shipyard mobilization base by the Navy Department and MARAD has estimated that the U.S. is likely to be short about 40,000 skilled shipyard workers by the end of this decade unless action is taken. An estimated 100,000 skilled workers would be needed to meet urgent emergency manpower needs. Shipyard workers who have been laid off must find other employment to support their families; many are forever lost from the manpower pool and their skills can no longer be utilized in essential shipbuilding endeavors. New workers cannot be trained overnight to meet emergency manpower requirements. Shipbuilding skills are complex and take years of apprenticeship training and experience to sharpen important job functions and to assure high productivity and quality work.

To summarize the position of the AFL-CIO Metal Trades Department, Mr. Chairman, we urge the vigorous and positive efforts of this committee and the 98th Congress to address the many interrelated problems of the shipbuilding, maritime, and defense areas in a comprehensive, coordinated manner. Cargo preference policies must be directly related to policies directed toward the expansion and modernization of our merchant fleet, while those policies must be consistent and positive when related to the vital need to preserve and modernize our shipyard mobilization base, including shipyard manpower skills. All of these policies, additionally, must interface with the critical requirements of our military sealift and the strengthening of our national defense. These policies must not be addressed piecemeal, as has been too often the failure of past efforts.

Legislation now before this Congress affords this opportunity to deal effectively with the multiple aspects of these national needs. Lasting, long-term benefits are attainable without the massive expenditure of Federal funds. We are a maritime nation with a proud heritage of leadership and worldwide responsiblity in war and in peace. The United States cannot and must not ever become a second-rate maritime power in the world. We are in danger of such a prospect if we do not act promptly and wisely at this critical juncture in our history. The men and women of the AFL-CIO Metal Trades Department pledge our constructive efforts to assist in positive legislative efforts in Congress to help achieve these objectives so vital to our Nation.

STATEMENT OF TALMAGE E. SIMPKINS, EXECUTIVE DIRECTOR, AFL-CIO MARITIME COMMITTEE

The AFL-CIO Maritime Committee, representing the National Maritime Union of America, AFL-CIO; the American Radio Association, MMP; and the United Steelworkers, District 4, AFL-CIO; has long endorsed cargo preference as a means of supporting the American merchant marine.

The Merchant Marine Subcommittee of the Senate Commerce, Science and Transportation Committee, is now considering four pieces of legislation dealing with cargo preference. We believe that each of the cargo preference bills could work to enhance our national maritime goal of developing a strong American flag merchant marine as envisioned by the Merchant Marine Act of 1936.

We support S. 188, a bill which would require that certain mail of the United States be carried on U.S. flag vessels. Additionally, we support S. 206 which would increase the role of the Secretary of Transportation in administering cargo preference laws. For too long, government agency interference has muddied the waters regarding the appropriate application of the current cargo preference laws. S. 206 would solve this problem by charging one official with the responsibility for determining and designating those programs which are subject to the requirements of section 901 of the Merchant Marine Act of 1936.

S. 1616 would improve enforcement and redefine the application of existing preference laws regarding government-impelled cargoes. For years, agencies in succeeding Administrations have attempted to chisel away at what was thought to be the law of the land on cargo preference. The preference laws have been based in part on the proposition that this was U.S. Government cargo to which this country's carriers were entitled for reasons of national security, in the case of defense shipments, as a means to help U.S. carriers who are competitively disadvantaged by lower cost foreign flag operators with underpaid crews, and to recoup some of the revenues involved for the U.S. economy.

We firmly believe that if we are to have an adequate American flag merchant marine it will be necessary to reserve a portion of our commerce for carriage on our merchant ships. We do not believe, however, that it is possible at this time to enact legislation such as S. 1624, the "Merchant Marine Revitalization Act of 1983."

We would endorse, as have other witnesses, the possibility of applying cargo preference laws exclusively to all imports. To establish an adequate dry and liquid bulk fleet we would also suggest—

1. Enactment of legislation to: (a) excuse all federal taxes such as taxes on bunkers and corporate income taxes applicable to an American company; and, (b) exclude federal income taxes to merchant mariners while serving aboard oceangoing vessels of 10,000 dwt and over while engaged in the carriage of U.S. commerce.
2. Support of the UNCTAD bulk cargo 40/40/20 shipping agreement.

3. Encouragement of the transfer of the American-owned "runaway" ships to U.S. flag. This would be the easiest and fastest way of developing the bulk fleet.

We are ever-mindful of the fact that these suggestions are not totally new or all-encompassing, but we do believe they are a step in the development of a revitalized maritime policy.

A merchant marine cannot survive without cargo. In our opinion, cargo preference legislation is the most practical method of ensuring the future of the American merchant marine.

STATEMENT OF O. I. M. PORTON, PRESIDENT, ATLANTIC CONTAINER LINE (USA)

Atlantic Container Line (ACL) respectfully expresses its opposition to S. 188 which is currently being considered by the Merchant Marine Subcommittee. S. 188 would, if enacted, amend the Merchant Marine Act, 1936, so as to require the United States Postal Service to:

Contract for the use of vessels of United States registry to originate any international sea transportation of mail of the United States in any case in which the common carrier which operates or controls such vessel is engaged in the provision of regular transportation services to the destination specified by the Postal Service.

The effect of this legislation on carriers such as ACL would be immediate and direct: Whenever a port in Europe is served by a carrier flying the U.S. flag, ACL and any other foreign-flag carrier would be barred from competing to carry U.S. mail to such port. Instead, the award of any postal contract would by law have to be made to a U.S. carrier serving that port. The effect of the legislation on the U.S. Postal Service would also be immediate and direct: Since S. 188 blindly requires award to U.S.-flag carriers in all qualifying circumstances, existing open competition would be lessened, timely mail service would worsen, and mail transportation costs would rise.

Thus, while S. 188 might serve the interests of a select few carriers through the guarantee of non-competitive rates, it would certainly not serve the interests of the mailing public or the U.S. government. As explained in detail below, S. 188 should not be enacted.

Since its formation in 1967, ACL has been a major competitive force in the North Atlantic. ACL is a member of the seven North Atlantic conferences and has proven itself an efficient and highly reliable carrier, serving each port range in North Europe with direct calls of its modern roll-on roll-off container ships. ACL carriers a significant percentage of North Atlantic conference cargo and has done so as a result of what we believe to be our superior direct service.

That service has also enabled ACL to successfully bid on postal solicitations for the carriage of U.S. Postal cargo, which is contracted for by competitive bidding. The competition for such cargo is predictably highly aggressive, and it has been our experience that the Postal Service has historically used its clout to effectively insure that the mail is moved by the carrier or carriers offering the best combination of cost plus service. This is how it should be. Continuation of this state of affairs, in ACL's opinion, requires continued open and aggressive competition where no carrier is favored. This would not be possible under the terms of S. 188.

ACL vessels fly the flags of Great Britain, France, The Netherlands, and Sweden; these trading partners and allies of the United States do not themselves restrict the carriage of mail to vessels flying their own flags. Indeed, over the years, U.S.-flag carriers have freely and successfully competed with ACL for contracts to carry European mail to the United States. The beneficial effect of flag-blind competition is obvious if one compares U.S. Postal Service rates with other rates charged to private shippers. Even now, at a time when rates are generally depressed as a result of the rate war that has raged in the North Atlantic trades, the Postal Service still enjoys rates that are on the average significantly lower than those charged to private shippers for the shipment of general commodities. Thus, the result of the present competition among all carriers is that the mail can always be moved in the fastest and also the most economical manner available.

S. 188 envisions a much wider American Flag preference than has ever been part of U.S. postal procurement law. In fact, there has been no preference statute pertaining to postal contracting at all for the last 13 years. The previous, much narrower statutory preference that existed until 1970 was itself deleted by Congress in that year after it had become obvious that even a narrow preference was wasteful, unworkable, and contrary to the public interest. Because there are lessons to be learned from Congress' past experiments with preference legislation, I will summarize the legislative history of these prior provisions.

Prior to 1960 section 405(a) of the Merchant Marine Act, 1936, as codified at 46 U.S.C. § 1145, contained the following provision:

> All mails of the United States carried on vessels between ports between which it is lawful under the Navigation laws for a vessel not documented under the laws of the United States to carry merchandise shall, insofar as practicable, be carried on vessels of United States registry.

This provision was removed from the Merchant Marine Act in 1960 by Public Law 86-682 which added an expanded Title 39 to the United States Code. Under the terms of Public Law 86-682 the exact language previously contained in section 405(a) of the Merchant Marine Act, as set forth above, became the new section 6104 of Title 39. See (1960) U.S. Code Cong. & Admin. News at 956. This change, and other changes provided for by Public Law 86-682, were not meant to alter existing law, but were instead intended to codify all Postal law—which had not been revised since 1872—in the one place that all such provisions belong, Title 39. See S. Rep. No. 1763, June 28, 1960, reprinted in (1960) U.S. Code Cong. & Admin. News at 863. Therefore, it should be initially noted that whether any U.S.-flag preference provision makes sense today—and it does not—depends on an analysis of the requirements and goals set forth in Title 39. Congress has already clearly indicated that preference provisions simply do not belong in the Merchant Marine Act, 1936.

Though the former preference provision of 39 U.S.C. § 6104, unlike the present S. 188, gave the Postal Service the discretion required to determine, in given circumstances, whether carriage of the mail on U.S. registered vessels was "practicable," even this limited and discretionary preference was abandoned by Congress as contrary to the public interest when it repealed the provision under the terms of the Postal Reorganization Act of 1970, Public Law 91-375. See (1970) U.S. Code Congressional & Admin. News at 3698. Congress made it clear in passing the Postal Reorganization Act that provisions such as § 6104 that restricted the government's ability to competitively award mail contracts hindered efficient mail delivery and simply did not serve the needs of the public. Thus, in describing postal procurement as it existed prior to 1970, it has been said:

> The postal system needs the most flexible and efficient transportation services that the American economy can provide. Ultimately, the mails are completely dependent upon transportation. Yet the Post Office Department today labors under restrictions on its ability to procure transportation services that are often rigidly confining and in some instances inexcusably archaic.

H. Rep. No. 91-1104, reprinted at (1970) U.S. Code Congressional & Admin. News 3649, 3653-54. Of course, S. 188 would be even more rigidly confining and archaic than the provision abandoned 13 years ago as unworkable since the present bill does not even allow the Postal Service a semblance of discretion to weigh the needs of the public.

Indeed, just as repeal of former section 6104 was required in light of the philosophy underlying Public Law 91-375, addition of a new preference provision, particularly the broad and anti-competitive provision under consideration, would simply not square with the existing clear requirements of Title 39. In enacting the Postal Reorganization Act Congress mandated that the Postal Service must be self-sufficient and, within the bounds of sound fiscal management, must strive to award contracts for the transportation of mail based upon its analysis of one paramount factor: efficiency. In this regard, 39 U.S.C. § 101 (e) and (f) currently provide, in pertinent parts, as follows:

> In determining all policies for postal services, the Postal Service shall give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail.
>
> In selecting modes of transportation, the Postal Service shall give highest consideration to the prompt and economical delivery of all mail and shall make a fair and equitable distribution of mail business to carriers providing similar modes of transportation services to the Postal Service. * * *

Similarly, 39 U.S.C. § 5001 specifically mandates that "(t)he Postal Service shall provide for the transportation of mail in accordance with the policies established under section 101(e)"; see also (1970) U.S. Code Cong. & Admin. News at 367. S. 188 is directly at variance with this existing statutory policy.

Congress gave up its experiment with statutory flag preference provisions 13 years ago when, after extensive hearings and analysis, it decided that the section 6104 experiment was a failure and rewrote Title 39 in a manner that eliminated that section and other restrictive provisions inimical to the public interest and at variance with the philosophy of the Postal Reorganization Act. Section 6104 was eliminated from the code because in 1970 it was found to be out of step with efficient procurement practice.

Section 6104 required only that insofar as practicable the mail should be carried by vessels flying the U.S.-flag, and left to the Post Office Department (the predecessor of the Postal Service) the discretion to weigh what is and what is not practicable. Thus, in practice the repealed section was only "a Congressional declaration of policy to guide the Post Office Department in the discharging of its duties. * * *" (*Grace Line, Inc.* v. *United States*, 155 Ct. Cl. 482, 495 (1961)). By contrast, S. 188 is in no way a policy "guide," it is a commandment that would leave the Postal Service with no discretion to do what it is required to do under Title 39: move the mail in the manner that best combines low cost and superior service.

If S. 188 becomes law, the following will occur:

(A) As long as any carriers flying the U.S. flag serve a given destination they would be assured that in the bidding process competition from other lines would be eliminated. This would predictably result in less competitive bids by the flag-preferred carriers; and, therefore, in more expensive postal contracts.

(B) If only one carrier flying the U.S. flag served a given destination (and this occurs in real life quite frequently) the Postal Service would be required by law to contract with that carrier and the carrier would know it. The carrier would, in such a situation, have *no* competitive pressure and could freely, like any monopolist, set its prices at whatever level it desired and offer whatever transit time it wished.[1]

(C) The requirement in the bill that any rate paid to a U.S-flag carrier shall be not less than the sum of "fully distributed costs" plus "a fair and reasonable profit" (whatever that means) is an astonishing provision in its own right. Specifically, it (1) would require that the Postal Service undertake expensive and time-consuming cost analyses to make certain that it is not paying too little, but (2) would afford the Postal Service no "ceiling" price or formula that would guarantee that is is not paying to much. It is hard to imagine how such a clause can serve any legitimate public need. In the past the Postal Service, as a result of competitive bidding for Postal contracts, has been highly successful in securing transportation of the mail at less than the average rates prevailing for private commercial transportation. S. 188 would turn the status quo upside down. It would replace the Postal Service's current favorable position with a new regime of Postal contracting where, in effect, the Postal Service would be required to subsidize other transportation by always paying to U.S.-flag carriers prices that have no ceiling, but have a *floor* guaranteed to recover "fully distributed costs" plus profit.

(D) Foreign-Flag carriers that, in given instances, might be able to offer faster or lower cost services would be completely barred from competiting for such movements, contrary to the existing requirements and guarantees of Title 39.

(E) Certain carriers would receive preferential treatment even if the service they offer utilizes non-U.S.-flag vessels. Thus, where given destination ports are not served by vessels registered in the United States, but are served instead by foreign-flag feeder vessels—a situation that frequently occurs—award would still be required without competition under S. 188 so long as United States registry vessels are used by such carriers to "orginate international sea transportation of mail."

It must also be remembered that the mail, of course, moves in both directions. As long as all nations refrain from enacting preference legislation, free competition reigns for both outbound and inbound mail movements. The imposition of a preference such as that contained in S. 188 would therefore not only severely reduce competition for carrying U.S. mail, it would be an open invitation to other countries to also break the present international non-preference balance by following suit and enacting their own retaliatory preference legislation favoring carriers flying their own flags. This threat led the governments of the United Kingdom, Denmark, The Netherlands, Finland, Norway, Sweden, Belgium, Italy, and Greece, as well as the U.S. Department of State, to vigorously oppose, on international comity grounds, virtually identical perference provisions that were proposed in section 11 of the Postal Service Act of 1977 (H.R. 7700), a provision that was wisely deleted from the final text of the bill.

While we are most concerned about the preference provisions of S. 188, it must be pointed out that section (d) of the bill is equally illogical and out-of-step with reality. Under section (d) the Postal Service would no longer be allowed to specify container sizes (i.e., 20-foot containers or 35/40-foot containers) in its solicitations. The advantage of such a provision would accrue to only one major U.S. carrier, and not to the public. Thus, under section (d)—(1) The Postal Service would have to pay 35/40-foot rates for overflow cargo that would not otherwise fill a less expensive 20-foot container (an obvious waste of money); and (2) postal contracts could simply not be awarded for ports such as Dublin, Ireland, to name but one example, that are not designed to handle 35/40-foot containers and that, indeed, are incapable of handling any containers other than 20-foot containers (an obvious absurdity).

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[1] In fact, since the bill requires only that the destination point be served by the preferred carrier, and says nothing about whether that carrier serves or does not serve the most convenient origination point, the bill would, on its face, require expensive and time-consuming overland transportation of the mail to the U.S. port such carrier serves even where more direct (and probably cheaper) ocean service is available.

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ACL's stake in S. 188's defeat is clear: open competition to carry U.S. mail. Regardless of our own interest, however, we firmly believe that upon any objective analysis of the bill, it should never see the light of day.

Statement of Walter A. Larsen, Chairman of the Board, Western Shipbuilding Association

Mr. Chairman members of the subcommittee, my name is Walter A. Larsen. I am Chairman of the Board of Western Shipbuilding Association. Our Association is coalition of management and labor, representing the shipbuilding and ship repair industry and related segments of the maritime industry on the Pacific Coast and in the State of Hawaii.

The testimony that follows represents the views of the membership of Western Shipbuilding Association on four important cargo preference measures now under consideration by this Subcommittee.

First of all, we fully support and urge your early passage of S. 188, S. 206, and S. 1616. The balance of our testimony concerns S. 1624, the "Merchant Marine Revitalization Act of 1983", with specific comments directed toward Title I of this Bill.

Western Shipbuilding Association also fully supports and urges early passage of S. 1624, as originally introduced, with modification as requested herein. We base this support on the following rationale:

1. The Government is presently spending hundreds of millions of dollars mobilizing a Rapid Deployment Force (RDF) with a capability of being self-sustaining for approximately 45 days. In the event of conflict, this force would be brought into immediate military support activities, and it would require immediate external means of re-supply to survive. Current dependable sources of ships, crews and activation capabilities are minimal even under the most optimistic of operating scenarios.

History illustrates the fact that few, if any, conflicts are resolved with 45 days to the extent that the FDF could be relieved. History further illustrates that, despite the tremendous airlift capabilities this country possesses, 95-percent of the re-supply cargo will be transported via land and sea. Considering the downward trend in numbers of vessels that make up the U.S.-flag merchant fleet, we as a nation are reaching a critical period in time, when the need to rebuild our re-supply capability to an adequate level is a virtual immediate "must". S. 1624 will substantially fill this need.

2. The nation's defense planners recognize the need to preserve and maintain both shipbuilding and ship repairing skills in order to maintain an adequate defense mobilization base. A U.S. Navy study on Public/Private Allocation of Ship Overhaul and Repair Work, dated July 19, 1983, has recognized and deplored the crucial shortage of U.S.-flag ships and progressive deterioration of the essential U.S. shipyard industry in the following language: "notwithstanding the Navy's initiatives to assist the nation's private shipbuilding and ship repair industry, the private sector has suffered largely because of the steady decline in commercial ship new construction and repair which has been primarily due to the deterioration of the U.S. Merchant Marine. This situation is one of utmost concern to all, yet we know that regardless of the increase in Navy repair and alteration work, it will be insufficient to support adequate shipyard industrial base capabilities required to meet mobilization requirements. Only through an extraordinary effort to revitalize the U.S. Merchant Marine and the potential it represents will any significant workload potential in the private shipbuilding and repair industry materialize."

S. 1624 will, in our considered opinion, serve to provide the stimulus necessary for filling the nation's vital mobilizaiton needs for ships and shipyard capacity. In addition, thousands of jobs will be preserved, assuring a positive impact on our current serious unemployment situation.

3. S. 1624 will be of considerable help in correcting our trade imbalance, which is currently running at a negative rate of more than $60 billion per year, and the trend continues downward.

4. S. 1624 will generate additional tax revenues from increased employment in shipyards, vessel crewing, and throughout the marine supply system—vendors, subcontractors, etc.

5. S. 1624, while not a cure-all for all of our maritime industry shortfalls, will provide considerable long term benefits to our nation and its security. It is a long term solution for a long term problem.

While Western Shipbuilding Association fully supports S. 1624 as introduced, we are unalterably opposed to Amendment No. 1516. We believe this amendment to be counter-productive to the full intent of the Bill. Amendment No. 1516 would negate the rationale for our support as stated above, specially in the area of trade and crew skill preservation. The Bill, as originally introduced, already provides relief for importers and exporters should qualified vessels be unavailable.

Western Shipbuilding Association finds "free trade" to be non-existent in the real world of today. Opponents of S. 1624 make a big issue of the Bill's restrictions to this so-called "free trade" concept. We are convinced that the world connot achieve true "free trade" until all traders perform under the same set of rules. The United States has been trading with "both hands tied behind its back" far too long. It's time we cut the bonds and give our own transporation industry a fair chance to compete with the rest of the world.

Finally, Western Shipbuilding Association respectfully requests that this Subcommittee take the required steps to amend S. 1624, by adding a new sub-section under Title I, as follows:

"Title I, Section 103: (a) (E) The vessels will be repaired in the United States except in the event of emergency repairs required for vessel, crew or cargo safety. Modifications and/or conversions will be accomplished in the United States."

This amendment will assure compliance with the full intent of the Act. The United States must have the capability to build, operate and maintain the vessels required by the Act. Each capability, although separate in function, is inextricably interdependent on the others. The above proposed amendment provides for the needed continuity.

On behalf of the membership of Western Shipbuilding Association, we thank you for the opportunity to present our views on this important legislation.

STATEMENT OF DAVID L. GROVE, PRESIDENT, UNITED STATES COUNCIL FOR INTERNATIONAL BUSINESS

The United States Council for International Business, a policy-making organization representing the interests of over 250 corporate members on numerous trade and investment issues affecting their ability to compete effectively in world markets, is pleased to present its views on S. 1624, "The Merchant Marine Revitalization Act of 1983." Speaking as the major U.S. business association concentrating solely on the international marketplace, the U.S. Council must express its grave concern on the substance and implications of this bill.

INTRODUCTION

In general, the United States Council believes that the forces of the free market economy and open competition best serve the interests not only of international industry and its customers but the community at large. Indeed, as the U.S. affiliate of the International Chamber of Commerce, the world business organization, the Council's objective is to ensure the most open trading system possible. Through the ICC's advisory capacity with such intergovernmental bodies as the General Agreement on Tariffs and Trade, the Organization for Economic Cooperation and Development, the International Monetary Fund, the European Community, and the United Nations, we have worked with our private sector counterparts in over 50 countries to achieve this end.

Furthermore, the Council is acutely aware of the crucial role of transportation to the American business community, and of the extensive use which is made of the international bulk transport system. We therefore have a compelling interest in the maintenance of the efficiency and long-term economic health of international bulk transport in U.S. and foreign trades, this matter being urgent to America's international trading position. It is in the vital interest not only of the United States, but of the world community, that reliable, efficient, and low cost transportation be promoted as an integral component of world trade, and thus the world economy. It is essential that any efforts to develop international and national shipping capacities and policy take this into account.

Therefore, the U.S. Council stresses that approaches to develop national shipping capacities must not be based on protectionism, and that temptations to do so, despite the current economic climate, must be overcome. Instead, efforts should be based on competitive principles, which have been shown to best serve the interests of international industry, its customers, and the community at large. Governments should agree to limit interference, and to foster healthy competition in open markets.

S. 1624

The U.S. Council has appreciated the substantial work done by this Subcommittee in recent years towards revitalizing the U.S. maritime industry. Concerted efforts are much-needed here and on other fronts to rectify the problems faced by the U.S. in the maritime field. However, the U.S Council views S. 1624 as a misguided initiative embodying a basic contradiction: an attempt to achieve a more competitive shipping and shipbuilding capacity by a protectionist elimination of competition.

The bill's cargo preference provisions and construction and manning requirements, as outlined in Title I, the "Competitive Shipping and Shipbuilding Act of 1983," would certainly lead to significantly higher cost—entailing billions of dollars over the designated sixteen years before S.1624 would become fully operative—and less efficient shipping services to the U.S. bulk trades, thus penalizing both the consumer of imports and producer of exports. The increased costs associated with cargo preference schemes have in fact been well documented during past attempts to institute similar provisions—such as the push for preference in the petroleum trades in the '70's, or more recently dry bulk cargo preference initiative in the House of Representatives. Those initiatives were rejected when it became clear that by tampering with free market forces, their passage would only act to stifle competition and to inhibit free and open trade among the U.S. and its trading partners—to the detriment of the alleged beneficiaries. In the case of S.1624, studies have already shown that such cargo preference measures would lead, for example, to a huge loss of coal exports by pricing U.S. coal out of world markets.

The principal factors responsible for higher costs would, of course, be the bill's manning and construction requirements. It is no secret that U.S.-flag ships are, and will continue to be, much more expensive to build and operate than their foreign-flag counterparts. This is indeed an important root cause for the current state of the U.S. maritime industry—and one that S.1624 fails to properly address. The bill does propose an "innovative feature," namely the requirement that American ship operators and shipyards each reduce their costs by twenty percent in real terms. However, the U.S. Council views this provision as highly illusory, and very unlikely to be achieved, especially in the absence of controls over collective bargaining demands and shipyard pricing. In any case, such a twenty percent cost reduction would hardly offset the substantially higher price increases that cargo preference would incur.

We have been witness to similar cargo preference initiatives at the international level. Under the guise of promoting merchant fleet development in developing countries, the U.N. Conference on Trade and Development has consistently promoted political and anti-competitive allocations of resources as a solution to economic problems. The reason for our strong resistance to the UNCTAD Liner Code and to UNCTAD cargo-sharing proposals for the bulk trades is the recognition that such proposals would restrict and destroy competition. This is ultimately no in the best interests of any participant in the world trading system.

In sum, the U.S. Council feels that the bill's provisions, rather than rectifying the industry's problems by promoting increased U.S. ocean transportation of bulk commodities, would instead result in s shrinkage in U.S. bulk exports, and in higher prices for bulk imports vital to our industrial base. The U.S. economy, as well as our international trading position, would be damaged by such a development.

WORLD TRADE AND THE U.S. ECONOMY

The U.S. stake in a smooth-functioning international regime is tremendous and growing. As the world's largest trader, our share of the world's exports has grown from 11.9 percent in 1977 to 13.5 percent in 1982. Exports now account for nearly 12 percent of U.S. GNP, almost three times the comparable share a decade ago. The U.S. is a foreign net exporter of services and agricultural goods, and U.S. foreign direct investment nearly triples that of foreign companies in the United States.

Accompanying this escallation has been greater recognition on the part of Americans that not only do trade relations have significant effects for world economic activity, domestic economic policies, and the standard of living for people everywhere, but that exports are vitally important to our own economic welfare. This recognition has prompted us to resist those pressures and policies, both abroad and at home, that would undermine the international trading system that has served us well. It is why we have used our influence at the international level, especially within the GATT, to dismantle trade barriers, both tariff and non-tariff, and to encourage other countries to follow the rules of international trade.

THE PROTECTIONIST THREAT

Today, however, our defense of an open trading system is being put to a supreme test. With deficits rising, real interest rates high, unemployment up, and growth down, protectionism is on the rise everywhere. Many of our trading partners are responding to the current situation by trying to insulate their economies from outside competition. We must not forget, though, that trade-impeding measures also reduce the general wealth and prosperity of all the people involved. Although there are always "obvious" reasons for "protecting" industries against "unfair" competition, the penalties for taking such action are more subtle, diffuse, and harder to perceive. But they are real and must not be overlooked.

Protectionist sentiments are not only to be found among our trading partners—trade barriers and similar short-sighted economic remedies are being espoused by a growing constituency here in the United States. The bill currently under discussion, S. 1624, is a manifestation of this trend. Its proponents point out that many of our trading partners, in the pursuit of commercial and national goals, are providing significant incentives to bolster their maritime and shipbuilding industries. We should deal with this situation, purport the sponsors, by responding in like manner. S. 1624 is, by mandating carriage of bulk commodities on U.S.-flag ships, a non-tariff barrier of the type we have been trying to eliminate internationally.

The U.S. Council urges all those concerned to carefully consider the consequences of such action in light of previous experience in matching protectionist measures with protection. A vivid case in point was the enactment in 1932 of the well-known Smoot-Hawley Tariff Law, which was designed to create more U.S. jobs by boosting U.S. exports. History shows that in two years' time, and following retaliatory counter-measures, both U.S. imports and exports had declined by two-thirds. Between 1929 and 1933, the value of world trade fell by no less than 60 percent, and the world settled into a deepening depression. It is obvious from the story of the early 1930s that protectionist measures failed to protect jobs or promote a strengthened trading position.

Unfortunately, the lessons of the 1930s are being forgotten in today's environment. Rising unemployment and structural changes in international competition are obscuring the benefits of free trade, and for the first time in over thirty years, world trade has actually declined. This situation is resulting in a noticeable increase in protectionist pressures.

Any protectionist measure, whether of a tariff or a non-tariff nature, encourages protective counter-measures. In cases of unfair competition, it is indeed difficult to argue against retaliation. However, retaliatory protection is just as harmful to world prosperity as any other form. Protectionism may appeal to the emotions and provide quick-fix relief for a particular industry, but the price that must be paid is prolonged recession, higher costs, and the deterioration of a trading system that has contributed to unprecedented growth and development for nearly 35 years.

CONCLUSION

The United States Council for International Business believes that S. 1624, by mandating cargo preference provisions for the transport of bulk commodities in U.S. trades, would damage both U.S. exports and imports of those commodities, and thus have negative consequences for the U.S. economy.

Furthermore, the U.S. Council believes that this type of legislation is incompatible with U.S. leadership in preserving a free market economy, and represents a threat to a smooth-functioning international trade regime. The U.S. must assert strong political will to ensure that the protectionist initiatives spawned in the current world economic climate are resisted, and that the vital role of competition as an engine for growth is recognized.

STATEMENT OF THE COUNCIL OF EUROPEAN AND JAPANESE NATIONAL SHIPOWNERS' ASSOCIATIONS

S. 188

1. The Council of European and Japanese National Shipowners' Associations (CENSA), is an international organisation, the membership of which comprises the national shipowners' associations of the following countries: Belgium, Denmark, Finland, France, Germany, Greece, Italy, Japan, the Netherlands, Norway, Portugal, Sweden and the United Kingdom, together with individual liner companies (including consortia) from those countries which trade to or from the United States. CENSA has various objectives of a specific nature, chief among them being the promotion and maintenance of an international merchant shipping system in the service of world trade, free so far as possible from governmental interference, flag discrimination and protectionism. It is the furtherance of these objectives which prompts CENSA to submit a statement to this Committee.

2. CENSA appreciates the opportunity to express its views in connection with the proposed legislation now receiving your attention because it feels that this legislation has implications for international shipping. It is in this context that CENSA wishes respectfully to register its opposition to the flag preference provision contained in this bill.

3. The adverse economic effects of cargo preference will, of course, vary in degree according to the measures involved. However, once the principle of cargo reservation in international shipping has been adopted by the United States, the range and scope of protection may be extended at will. It is this aspect above all, to which CENSA draws the attention of your Committee.

4. In this particular case, CENSA would like to stress that flag preference provision will by no means affect foreign shipowners only, but also the customers who depend on a regular and reliable service for transportation of mail. A preference provision will no doubt affect frequency and involve delays.

5. CENSA respectfully submits that the carriage of international mail should not be governed by government legislation imposing flag preferences as this would:

(i) appear to be inconsistent with current US policy and, according to authoritative opinion in the US, may be in conflict with many treaties of friendship, commerce and navigation to which the US is a party;

(ii) constitute a non-tariff barrier to trade and thus be in direct conflict with the declaration made by GATT Ministers when opening negotiations at the Tokyo meeting in 1978 to secure greater liberalisation of world trade;

(iii) be in conflict with the U.S. commitments under the OECD trade pledge, particularly the 1980 OECD Trade Declaration which refers to the countries' determination to continue their efforts towards further improvements to reduce obstacles to the exchange of goods and services, and to avoid internal measures which have protectionist effects.

(iv) be in conflict with the principle and practice of other OECD countries who do not reserve the carriage of their outward mails to ships registered under their own flags.

CENSA appreciates the opportunity to submit these views to the Committee for its consideration.

S. 1616

1. The Council of European & Japanese National Shipowners' Association (CENSA), is an international organization, the membership of which comprises the national shipowners' associations of the following countries: Belgium, Denmark, Finland, France, Federal Republic of Germany, Greece, Italy, Japan, the Netherlands, Norway, Portugal, Sweden and the United Kingdom, together with individual liner companies (including consortia) from those Countries which trade to or from the United States. CENSA appreciates this opportunity to express its views on S. 1616 now pending before this Committee because it has significant implications for international shipping in general.

2. Whilst CENSA is aware that legislation to reserve government cargoes, such as military cargoes, to ships flying that country's flag exists in a minority of countries, we nevertheless consider that the principles of free and fair competition in shipping should not be undermined by a wide interpretation of what constitutes "government impelled cargoes". (For example, Article 2.17 of the Code of Conduct for Liner Conferences expressly excludes only "military equipment for national defense purposes" from the scope of normal conference cargo and does not depart from this commendably narrow base).

3. In particular we view with concern the proposal at Section 7(a)(1)(E) for defining national security cargo. This definition might be considered as being so unreasonably discretionary as to make it difficult, if not impossible, for foreign carriers (in both the liner and bulk trades) to make business decisions for obtaining cargo support and on routing their ships to the regions and ports which they either serve already or which they might serve in the future.

4. We note that S. 1616 currently before the Senate seeks to extend existing legislation to 100 per cent preference for national security cargo beyond that encompassed in the Military Cargo Preference Act of 1904 so as to include oil and oil products needed for the Strategic Petroleum Reserve and commodities required for the national defense stockpile. The proposal for 100 per cent preference is coupled to the discretionary provision to which we have just referred and which embraces as national security cargo "any other equipment, materials, or commodities, procured, contracted for, or otherwise obtained in the United States, of any description certified by the President or his designee as affecting the national security of the United States."

5. As far as liner services are concerned, we believe that the 100 per cent cargo reservation coupled with the discretionary provision could have a most unsettling and unpredictable effect on the cargo support available to foreign carriers. As far as the transportation of bulk commodities is concerned, we believe that this endeavor to fly totally in the face of the free market which operates in bulk shipping will be detrimental not only for the United States but also other countries.

6. We refer now to the proposals for reserving to U.S.-flag ships 50 per cent of non-national security cargoes, albeit those cargoes in which there is a direct government involvement. We are concerned to see that the waiver opportunities within existing legislation which currently allow the appropriate agency to take account of the availability or otherwise of U.S.-flag vessels "to participate at fair and reasonable rates" have been severely restricted so as to allow preference to be given to U.S. carriers on a criterion based on a cost-plus differential. We believe that a cost-plus service can only be detrimental to world trade.

7. Finally, we refer to the proposals for reserving to U.S.-flag ships all of those cargoes in which the government has only an indirect involvement, for example those cargoes which are the subject of export credit guarantees. In this case, we note that existing legislation has been very widely extended from covering cargo for the account of either the U.S. or a foreign government to cover commercial cargo for any foreign or domestic entity. We believe that this is an unwarranted and extraordinarily elastic extension of the definition in practice of "government cargoes", particularly those carried in the liner trades.

The repercussions of this bill, if enacted, could have far-reaching political and practical effects. These would include:

A spill-over effect on the legislation of developing and Eastern Bloc countries which would lead to rigidities in their trade not only with the United States but with other foreign countries. It would also encourage bilateralism, particularly in the liner trades; and

A likelihood of conflict between the United States and her partners in the Treaties of Friendship, Commerce and Navigation; [1]

A diminution of the long-standing general commitment to free trade which the United States shares with her partners in the OECD and the GATT;

A destabilization of the factors that work toward improving economic security for the Western allies;

A contradiction to U.S. policy as spelled out at UNCTAD where the United States has led OECD countries into forthright opposition to the proposals of the UNCTAD Secretariat for cargo sharing in the bulk trades;

An increase in the transportation costs not only of the cargoes covered by this Bill but also of other cargoes moving in and out of the United States and other countries;

An inevitable addition in the form of higher freight costs, to current inflationary tendencies.

9. Higher transport costs can only diminish the opportunities for the world trade to grow. We hope that the United States, in common with her OECD partners, will abstain from subscribing to a shipping policy which would have such a consequence.

10. CENSA appreciates this opportunity to submit these views.

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[1] "The United States Government, for instance, has 35 Treaties of Friendship, Commerce and Navigation with other nations which provide for non-discriminatory access to ports and cargoes moving in foreign trade." Kyle and Phillips: A Study commissioned by MarAd for presentation before the Transportation Research Forum (October 1982).

S. 1624

1. The Council of European & Japanese National Shipowners' Associations (CENSA), is an international organization, the membership of which comprises the national shipowners' associations of the following countries: Belgium, Denmark, Finland, France, Germany, Greece, Italy, Japan, the Netherlands, Norway, Portugal, Sweden and the United Kingdom, together with individual liner companies (including consortia) from those countries which trade to or from the United States. CENSA appreciates this opportunity to express its views on S. 1624 now pending before you because it has significant implications for international shipping in general and serious consequences for the world's bulk trades, including the U.S. bulk trades. We respectfully suggest that the objective to build up the U.S. Merchant Marine, which we well understand, will not be served by preferences for the U.S. bulk fleet.

2. Since bulk shipping has served world trade very efficiently, largely unhindered by any regulations on access to cargo or regading flag of carriers, it is necessary to restate the nature of the bulk trades so that there may be a better appreciation of the reasons why we find it necessary to state our strong opposition to this Bill.

3. Bulk shipping involves the ocean transport of various kinds of bulk commodities (including oil and oil products) in large quantities (normally in full ship loads) for a single voyage, or for varying periods of time. Unlike the liner trades, the freight is not pre-determined but fixed for each cargo some time before shipment (in the case of a Contract of Affreightment involving repeated voyages over a fixed period, it would cover the whole contract period) on the basis of the market and the shipper's requirements.

4. In cases where bulk cargoes are of low unit value, the transport cost is a significant part of the cost to the buyer or seller; inefficient transport arrangements will therefore be reflected in the commodity price and impact upon the ultimate consumer.

5. An inescapable feature of the bulk trades is that they are normally imbalanced, i.e., the amount and type of cargo carried between loading and unloading ports is very seldom matched by a similar cargo flow in the opposite direction. There is therefore a need for flexibility to allow for a triangular or irregular pattern of trade to pick up backhaul cargo available at other ports so as to reduce or avoid expensive long ballast voyages and the economic loss associated with such inefficient use of ocean transport.

6. The inherent characteristics of bulk shipping are therefore efficiency, flexibility, and openness to competition from any quarter. It is in fact possibly the best example of the operation of free economic market forces where entry is open to all, where there is unfettered competition, where innovation, evaluation and flexibility predominate.

7. Given freedom of choice, cargo owners will charter the most efficient and economical ships suitable and available. Any restriction on the use of flag or access to the bulk cargo market will therefore not only hamper the operation of the market but will result in a considerable loss of flexibility in operation, with consequent costs incurred by unnecessary or prolonged ballast steaming, missed loading/arrival dates, and possible cancellation of cargoes. Such additional costs are unquantifiable but can, nevertheless, be extremely heavy.

8. As explained in paragraph 3 above, the price for carrying bulk cargo is fixed for each shipowner on the basis of the market and the shipowner's requirements. This Bill, in effect, would, however, require the executive to set charter rates for private commercial chartering transactions in international trade. Moreover, the requirements laid down in the procedure for establishing "guideline rates" in effect spreads the U.S. flag cost differential over all cargo, thereby effectively concealing the high costs of cargo preference from the producing and trading interests concerned. Apart from what must be a bureaucratic nightmare for the executive by way of establishing, reviewing and adjusting imports, the "guideline rates" as well as monitoring exports and imports, there is doubt whether the "guideline rates" established will permit competitive rates. It will be recalled from experience that the rates for U.S. flag vessels involved in Public Law 480 trades are substantially higher than comparable rates in the open market. There is no reason to suppose that this experience would not be reflected in the "guideline rates" established. In this connection, it is noteworthy that Section 105(a) which listes the objectives to be taken into account by the "guideline rates" makes no reference to any requirement that the price for bulk commodity exports and imports in the U.S. foreign trades must also be competitive in the world market.

9. Coupled with the "guideline rates" proposal is the principal (in Section 104(b)) that the obligations of the concerned U.S. importers/exporters cannot be avoided by changing the terms of sale of those bulk cargoes covered by the Bill. Currently, a very high proportion of the overseas buyers of U.S. bulk commodity exports such as coal, grain, phosphate rock, chemicals and petroleum, trade on FOB terms which gives them the right to make their own transport arrangements. Similarly, many U.S. importers of bulk commodities trade on CIF or C & F terms under which the freight is included in the price quoted by the overseas exporters. The consequences for the overseas FOB buyer and the U.S. CIF importer will be the same, viz: increased transportation costs as a result of the requirement to transport in U.S.-flag ships as a condition for future sales/purchases. Since the overseas buyer will want his requirements at the cheapest possible market price, he will inevitably start looking for alternative sources of supply, unhindered by any such restrictive requirement. If this was done on any large scale, and there is no guarantee that it would not be, this could be most damaging to U.S. trade interests. In the case of the U.S. CIF importer, there will be no option but to accept higher rates of freight, with obvious adverse consequences for the U.S. consumer and the U.S. economy. There will also be implications for foreign bulk carrier shipowners since the enforcement of the measures proposed in the Bill would mean that lesser amounts of U.S. bulk commodity exports would be available to pick-up as backhaul cargo to reduce or avoid long ballast voyages and this uncertainty and inefficiency will drive them to look elsewhere for such cargoes.

10. The existing cargo preference measures of the United States have already had and continue to have a contagious effect which could, if the trend continues, seriously damage the international shipping industry, including the U.S. Merchant Marine itself, which, sheltered from the need to be fully competitive in the open market, would be unable to compete in world cross-trades and thus significantly limit its potential to expand.

11. Extension of protectionism from the U.S. trades into the bulk sector in general as a consequence of any cargo reservation scheme for bulk cargoes would jeopardise the future of the whole international bulk fleet, whose efficient and commercially competitive operation is essential for the continued prosperity and economic security of the free world. It is pertinent to note that the international bulk fleet also includes a large U.S.-owned fleet under non-U.S.-flags as well as U.S.-flag ships. Furthermore, if this legislation were to be enacted it would also have considerable impact on discussions within UNCTAD (United Nations Conference on Trade and Development) on the proposal for cargo sharing in the bulk trades, first raised at UNCTAD's 5th Conference in Manila in 1979. OECD countries, with the U.S. in the forefront, have consistently opposed this proposal on the grounds that it would substantially increase transportation costs and have a serious effect on the trading interests of all countries, including developing countries. Any weakening by the U.S. on a point of principle, such as a move in the direction of support of bulk cargo preference, would therefore be regarded as a major U.S. concession in favor of UNCTAD's proposal. Whilst this would stimulate other nations with similar aspirations to follow the U.S. example her OECD partners would view this not only as undermining OECD Unity but also as a serious setback to the OECD's consistent defense in UNCTAD of the free market in bulk shipping.

12. International bulk shipping today remains essentially free and still relatively unhampered by protectionist measures. Estimates seem to reveal that cargo preference measures are in fact operative for less than 5 percent of bulk cargoes transported in international shipping. These preferences can for practical purposes be said to stem either from countries with state controlled economies or state-owned and operated merchant marines.

13. In summary, whilst taking notice of the aspirations of the United States to increase the participation of its merchant marine in the world's bulk trades under its own flag, CENSA nevertheless believes that this should be accomplished through the porpoer operation of free market forces and not through government legislation for bulk cargo reservation which, in our opinion, would:

(i) distort the normal operating pattern of bulk shipping (which depends essentially on flexibility and the free market) which could only have the effect of decreasing efficiency and increasing the cost of transportation with a consequent adverse effect on world trade;

(ii) appear to be inconsistent with current U.S. policy, and according to authoritative opinion in the U.S., may be in conflict with many Treaties of Friendship, Commerce and Navigation to which the U.S. is a party;

(iii) constitute a non-tariff barrier to trade and thus be in direct conflcit with the declaration made by GATT Ministers when opening negotiations at the Tokyo meeting in 1978, to secure greater liberalisation of world trade;

(iv) be in conflict with the U.S. commitments under the OECD trade pledge, particularly the 1980 OECD Trade Declaration which refers to the countries' determination to continue their efforts towards further improvements to reduce obstacles to the exchange of goods and services, and to avoid internal measures which have protectionist effects.

(v) be contrary to U.S. policy as spelled out at UNCTAD where the U.S. has led the OECD countries into forthright opposition to the proposals of the UNCTAD Secretariat for cargo sharing in the bulk trades.

CENSA appreciates the opportunity to submit these views on S. 1624 for the Committee's consideration.

STATEMENT OF U.S. COUNCIL FOR AN OPEN WORLD ECONOMY

Statement submitted by David J. Steinberg, President, U.S. Council for an Open World Economy, to the Senate Subcommittee on Merchant Marine in hearings on bills to require minimum use of U.S.-flag vessels in U.S. imports and exports of bulk cargo and in other U.S. foreign commerce. September 29, 1983.

(The U.S. Council for an Open World Economy is a private, nonprofit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any private interest.)

The declared purpose of S. 1624 (the Merchant Marine Revitalization Act of 1983) is (1) "to promote the orderly and rapid growth of the bulk cargo carrying capability of the United States merchant marine," (2) "to assist and cooperate with the importers and exporters of bulk commodities so that they will be able to ship their goods in United States-flag ships in a commercially practicable manner," and (3) "to encourage the construction in United States shipyards of new, efficient, and enviornmentally safe bulk cargo carrying merchant vessels." A U.S.-flag ship is defined, in part, as one built in the United States, manned entirely by U.S. citizens, and with at least 50 percent of each piece of machinery and equipment (those items that are not integral parts of the hull or superstructure) manufactured in the United States—a definition adding substantially to the cost of using U.S.-flag vessels.

The bill requires that, in the first calendar year following enactment, each U.S. importer or exporter of bulk cargoes must ship at least 5 percent of these cargoes in U.S.-flag ships—the percentage rising by one percentage point in each succeeding calendar year until it reaches 20 percent. Thus, a minimum of 20 percent of each importer's or exporter's shipments of bulk cargo must be in U.S.-flag vessels within 15 years after the bill's enactment. There are various credits for use of U.S.-flag vessels in shipments of bulk cargoes between foreign ports, and relief for well-defined situations in which U.S.-flag vessels may not be available at reasonable rates. The bill also requires all U.S. operators and builders of bulk-cargo ships to reduce their costs by at least 15 percent in real terms within two years after commencement of these "cargo preference" requirements. The cost cutting requirement and the allowable credits do not significantly lessen the array of additional costs and other burdens which this bill would impose on U.S. importers and exporters.

Although supporters of this bill do not consider it a subsidy (at least one Congressional sponsor sees it as making ship operation and construction subsidies no longer necessary), the requirement of minimum shipments of bulk-cargo imports and exports in U.S.-flag vessels would be very much a subsidy. And a highly simplistic measure besides, inasmuch as it is not designed as a temporary, last-resort component of a balanced, coherent strategy of constructive assistance to an industry clearly needing and deserving extraordinary help at public expense—an assistance package whose cost to the nation's economy, including U.S. taxpayers, should be carefully assessed and made known to the American people.

To the extent that bulk-cago shipments would be made significantly more expensive by increased costs for shipping (even after account is taken of the required 15 percent reduction in U.S.-flag operating and construction costs) or by the adverse cost effects of the "cargo preference" stricture on the overall operations of U.S. exporters and importers of bulk cargo, the result would be harmful to U.S. efforts at combatting inflation and improving U.S. competitiveness in an increasingly more competitive world economy. Impairing the flexibility that U.S. industries need in programming shipments in the most efficient manner can hardly be helpful in this regard. Nor is there conclusive evidence that the nation's security needs with respect to dependability of shipping, shipbuilding capacity and ship repair capability requre such legislation or would materially be served by it.

The proposed stricture would tend to trigger retaliation, through one device or another, by adversely affected foreign countries. In some cases, it could induce similar practices, or stepped-up practices of this kind, by other countries keenly interested in the strength of their own merchant marine. Benefits which such legislation may, in a sense, appear to bring to operators and builders of U.S.-flag vessels could thus be offset of nullified by retaliatory or emulatory reactions by countries with which we trade.

Whatever steps are taken to strengthen the U.S. merchant marine should be steps that advance the total national interest, not damage it or any of its major components. I urge Congress to reject simplistic responses to complex national problems. I urge Congress to dispel illusions as to the effectiveness of measures like those in this bill as a device to create and protect American jobs, secure substantial participation by U.S.-flag ships in the nation's foreign trade and make secure the lifeline of U.S. access to essential foreign supplies. In its concern with shipping and all other aspects of the nation's international commerce, Congress should reject gimmickry and seek, instead, real solutions to real problems through coherent, cost-effective policies, however difficult the task.

The other bills covered by these hearings are also objectionable, at least to the extent that they would impose on private U.S. commerce the requirement of minimum levels of utilization of U.S.-flag vessels. Although S. 1616 (the Government Impelled Cargo Act of 1983) deals with requirement of transportation in U.S.-flag ships of U.S. government-involved cargoes, an objectionable feature is the expanded definition of government-involved cargoes to encompass cargoes affected by any use of government funds, however reomote (it seems). This would expand government-involved cargo to embrace many shipments normally defined as private-sector commerce.

S. 188, a bill to require that certain U.S. mail be carried on vessels of U.S. registry is a "cargo preference" bill that would increase the cost of U.S. mail service and invites objections similar to those expressed above concerning S. 1624.

Absence of comment in this statement on various aspects of the bills covered by these hearings should not be interpreted as either support for or opposition to these provisions.

STATEMENT OF PETER J. LUCIANO, EXECUTIVE DIRECTOR, TRANSPORTATION INSTITUTE

It is a pleasure to provide this statement for the record on the several cargo preference bills pending before your Subcommittee. The Transportation Institution is a nonprofit research and educational organization dedicated to the promotion of a strong American merchant marine. Our 174 member companies operate U.S.-flag vessels in the Nation's foreign and domestic shipping trades, including the Great Lakes and inland waterways.

We would like to comment on a number of legislative proposals designed to strengthen the U.S.-flag merchant marine. Because of the importance of each bill, each one is addressed separately.

S. 1616

We are encouraged to see the introduction of S. 1616, legislation designed to strengthen and clarify the Nation's government-impelled cargo reservation statutes. Despite the apparently clear intent of existing law, a variety of government agencies continues to ignore or evade the law by every possible means.

If this country is to ever again have a reliable and sound maritime program, it must have an existing nucleus fleet on which to build. U.S.-flag carriage of government-impelled cargo helps to serve this purpose. The degree to which that has been achieved needs to be put into perspective. In 1980, for example, U.S. oceanborne foreign commerce was 784 million metric tons, of which slightly more than one percent, or 9.3 million metric tons, was P.L. 664 cargo. Of that 9.3 million metric tons, the U.S. fleet carried 36 percent, or less than 3.5 million metric tons. Those figures reveal what a slender financial lifeline that cargo represents. In fact, the 36 percent carriage of those cargoes is substantially less than the 50 percent requirement under existing law. That discrepancy is due in large measure to the evasive tactics which have been elevated to a science in some agencies. The litancy of abuses which became issues in the 97th Congress—New Zealand butter, Jamaican bauxite and cash transfer controversies—are vivid reminders that the philosophy of avoidance is alive and well in certain agencies.

The most recent flaunting of the law is the Maritime Administration's announcement on August 25 of this year, that the cargo preference requirement governing the shipment of agricultural commodities financed under the Department of Agriculture's blended credit program will be enforced.

Despite the fact that the Maritime Administration concedes that blended credit shipments are covered by cargo preference provisions, the agency has stated that the Department of Transportation does not intend to pursue compliance with the law. The very agency charged by law with promoting the U.S. maritime fleet has voluntarily relinquished a vital portion of its charter.

Mr. Chairman, you, the members of this subcommittee and all members of Congress who support efforts to rebuild the U.S. maritime fleet to the demands of our time are to be commended. By and large, S. 1616 in conjunction with S. 1624, the Competitive Shipping and Shipbuilding Act of 1983, provides the solid foundation this country needs if we are to establish a maritime program which will serve the Nation well, in the future as well as the present. The primary emphasis of S. 1616 is in the right direction, but the Institute would recommend certain minor modifications in the bill in order to prevent that solid foundation from being eroded by those who would expand even the smallest loophole into a substantial excape from the requirements and intent of the bill.

Foremost among those modifications would be the inclusion of a requirement that the Department of Transportation be the final arbitrator between an agency responsible for the shipment of a particular cargo and potential bidders in any dispute over schedules, vessel specifications or any other issue. Without such a clause, any agency which chose to do so, could successfully avoid the law by establishing ceriteria which no available U.S. operator could meet.

The provision of Section 7 which legislates a 15-year useful life for bulk vessels, or the alternative which requires that they be substantially rebuilt in the last five years, would encourage the addition of modern, safe, high-productivity ships into the American fleet. However, we are gravely concerned that the proposed provisions will deny cargoes to vessels which are still quite seaworthy at 20, 25 or even 30 years of age because they have had their usefulness extended prior to enactment of this bill. Therefore, we would recommend that section 7 be amended to extend the number of years of useful life and to include a discretionary waiver provision for recently rebuilt vessels with years of useful life remaining.

We would suggest also that the definition of "National security cargoes" in Section 7 be clarified to cover all cargoes shipped by the Department of Defense, including those purchased with non-appropriated funds as well as appropriated funds and the shipment of all military equipment purchased by the United States under joint NATO agreements. In addition, language reiterating and clarifying that the requirement of a minimum of fifty percent U.S.-flag carriage does not include Jones Act transportation would be desirable. As you know, notwithstanding the position of this committee and the Department of Transportation that Jones Act transportation may not be counted towards the minimum 50 percent cargo preference requirement, the Attorney General recently issued a memoradum to the contrary.

We believe that these enforcement provisions, thus strengthened, would prevent many of the evasions of the law by government agencies yielding to groups who oppose government-impelled cargo laws. The precarious state of the current world economy and shipping markets have made their opposition ever more determined.

Some firms involved in the international petroleum industry have criticized U.S. goverment cargo-preference requirements for filling the Stragetic Petroleum Reserve, but we are not aware of any opposition from that sector when the oil-producing nations of Saudi Arabia, Kuwait, Iraq, Libya, Algeria, Ecuador, Nigeria and Mexico enacted petroelum related cargo-preference rules of their own. These countries are not isolate cases. Currently some 68 nations have enacted or are considering legislation guaranteeing that some portion of their domestic and/or international waterborne trade will be carried in their national-flag vessels.

As noted earlier, strengthened enforcement provisions in S. 1616 will do much to decrease, perhaps even to eliminate, evasion of the law. The requirement that any deficiency in compliance by a responsible agency be made up the next year will serve that purpose. It will provide agencies with the device they need to shield transportation decisions from external pressure and will provide substantial benefits to national security by maintaining or even expanding the American merchant marine.

S. 206

We also commend the intent of S. 206, which gives the Secretary of Transportation the sole role in determining and designating those programs which are subject to the requirements of the cargo preference act. We would note, however, that the bill lacks the enforcement mechanisms or penalty provisions directed toward those agencies which do not comply. We would suggest incorporating that bill into S. 1616 as a means of more fully addressing this highly complex issue of enforcement.

S. 188

With respect to S. 188, which would require the Postal Service to use U.S.-flag ships to move U.S. mail in international sea transportation, the Transportation Institute wholeheartly supports the ongoing efforts to revert to pre-1970 practices for the carriage of U.S. mail on U.S.-flag vessels, and commends Senator Inouye for taking the lead in this effort. Because there is no provision of law requiring otherwise, much of the mail which the U.S. Postal Service contracts to be shipped via international sea transportation is carried by foreign-flag vessels. The Institute supports a policy which would require 100 percent of U.S. mail to be carried on American ships unless no American ships are available. We agree with the Senator's view that most countries, either by law or commercial practice, reserve the carriage of mail to their national flag lines. The United States should do the same.

S. 1624

Finally, with respect to S. 1624, we would like to express the Institute's strong support.

A decade ago, as the United States closed out its long involvement in Vietnam, the American-flag merchant marine comprised nearly 1,000 ships. Today, in just a ten-year span, that number has been reduced by half. Of special concern is that of the fewer than 500 U.S.-flag merchant vessels, only 40 ships are engaged in the international liquid and dry bulk trades—the important business of shipping America's agricultural products, and carrying the strategically important petroleum, chemicals and metals needed to maintain America's economic and national defense postures. In many cases, the preponderance of those essential minerals come from overseas sources, and in that regard, nearly all of those products are moving on bulk carriers owned by foreign interests or under the flag of some other country.

The security implications of this situation are awesome. Of the 72 minerals essential to the national economy and America's defense mobilization base, the United States is import-dependent on 68. Over 90 percent of U.S. needs in cobalt, manganese and mica and at least half of America's needs for twenty or more other minerals are satisfied by foreign sources.

We believe that this Nation cannot trust its lifeline of imported strategic minerals to ships flying the flags of countries whose national interests may not always coincide with ours. Nor should it trust it to a U.S.-flag bulk fleet that is not only miniscule in size but is old. With an average age of 25 years, most of these important ships are nearing the end of their service lives.

Enactment of S. 1624 will send a signal to our allies—and adversaries—that the United States is not going to forfeit an important aspect of its military preparedness. We feel that reconstruction of an American flag bulk fleet, on which S. 1624 is predicted, is a start in the direction of rebuilding the total U.S.-flag merchant fleet.

The reconstruction of a large U.S.-flag bulk cargo capability will provide the assurance that the vital raw materials so necessary to America's economic well-being and defense posture will not be used as a hostage to the whims of foreign governments whose flag ships now carry them.

S. 1624 mandates that within 16 years after enactment, U.S.-flag ships will be handling at least 20 percent of the total liquid and dry bulk cargo in American international commerce. The Center for Naval Analyses estimates in its study of the bill that over 300 new ships will enter the U.S.-flag fleet over that period. This independent research arm of the Department of the Navy described some of the typical military missions of such ships as: (1) Deployment and resupply of land forces; (2) Limited underway resupply of Navy replenishment ships; and, (3) Support of the civilian economy with raw materials, manufactured goods, and commodities.

The demand for more ships will result in a surge of orders for American shipyards and, consequently, the creation of an average of 12,000 new jobs, annually, in shipbuilding. We also see a total of 84,000 new jobs created in those industries which are allied to ship construction. The expanded bulk fleet will also mean 9,000 new shipboard jobs, which will once again offer opportunities for men and women with the special skills needed to sail modern cargo vessels.

The Merchant Marine Revitalization Act of 1983 could make the difference between extinction or vitality for American shipyards. There are those who claim that the Administration's ambitious naval shipbuilding plans will assure the maintenance of the American shipbuilding base. In spite of orders for new fighting ships, the 27 yards which are the backbone of the American ship construction and repair industry cannot survive on naval work alone.

Historically, the shipbuilding activity in the United States has relied upon a mix of government and commercial new construction, repair and conversion work. By the end of 1983, a net job loss of 32,000 skilled shipyard workers since 1977 will have occured, and the future employment picture in the U.S. shipbuilding industry is not encouraging.

The order book for new merchant vessels in American yards has hit rock bottom. In 1982, orders for only three new commercial ships were placed. So far this year, the number of new merchant ship orders is zero.

Since not all of America's shipyards are equipped to build and repair the largest naval vessels, or some of the more sophisticated ones such as nuclear-powered submarines, the continued lack of commercial ship orders is going to mean that certain yards will not be able to survive the current lean years in world shipbuilding. The closure of any of the remaining shipyards, however, is detrimental to American defense preparedness because of the loss of the facilities and skills sorely needed for the U.S. mobilization base.

Commercial ship construction on the scale envisioned with the enactment of S. 1624 will also assure the continuation of American leadership in merchant vessel technology and development. American maritime architects and engineers developed the container, the LASH and the RO-RO ship. With oil no longer a cheap fuel, American know-how has made coal-fired ships practical once again. But without a positive merchant shipbuilding program, the shipbuilder's art will disappear in the United States, and with it will go many potential innovations which could be easily adapted to military use.

If there is a summary of the necessity for S. 1624, it would have to be that the United States will be getting a large number of defense assets at a very minimal cost to the American taxpayer. With a policy of bulk cargo reservation mandating a drastic expansion in the U.S. bulk fleet, the United States will find itself less reliant upon the goodwill of foreign governments for an important part of its international trade, in peacetime as well as in war.

The merchant marine has been called the fourth arm of defense. S. 1624 is preparing the Congress of the United States for a clear choice: Either enact the bill and assure the continuation and improvement of an integral component of the American defense-mobilization base, or defeat this legislation and assure the demise of a national asset which the United States cannot afford to lose and may never be able to regain.

Mr. Chairman, and members of the Subcommittee, allow me to express once again the appreciation of the Transportation Institute for your efforts to strengthen enforcement of existing cargo preference programs and to correct some longstanding abuses in the programs. The U.S. maritime industry stands ready to assist you in any way possible in building the kind and size of fleet required in the national interest.

[The following was referred to on p. 75.]

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS OF ADMIRAL SHEAR

Question. Successive administrations have publicly supported our cargo preference laws, and yet it seems not a year goes by when there is not at least one major instance where these laws have been evaded, or an inter-department conflict arisen.

For example, just a few years ago, the Urban Mass Transportation Authority was responsible for the purchase of 400 buses constructed in Germany. Many of these buses were being delivered to the United States aboard Soviet-flag vessels until Congress raised the issue of our cargo preference laws.

Then there was the case of the sale of surplus butter to New Zealand through the Commodity Credit Corporation. The Department of Agriculture disagreed with MARAD, and refused to acknowledge that our cargo preference laws applied.

In response to my question at that time, Admiral Shear said he was "not completely satisfied" with the progress MARAD was making to assure that a "fair distribution of that cargo goes to U.S.-flag vessels."

More recently, GSA arranged for the purchase of 1.6 million tons of bauxite from Jamaica. Although our cargo preference laws applied, and two U.S.-flag vessels tendered offers to carry the cargo, both were summarily rejected by GSA because of the unique and questionable delivery requirements imposed by that agency. All of that cargo was carried on foreign bottoms.

The bauxite transaction was especially disconcerting because it involved the use of dry-bulk carriers. Although dry bulk cargoes comprise about 40 percent of our foreign trade, less than two percent of it moves on U.S. bottoms.

Early this year the Department of Agriculture entered into an agreement with Egypt whereby flour was purchased by Egypt from U.S. millers at $155 a ton. The U.S. Government in turn provided the millers with grain in sufficient volume for them to make the sale at that price, including a profit.

The Department of Agriculture said our cargo preference laws did not apply: the Department of Transportation said they did. And there the matter stood. The Administration finally ruled that fifty percent of the wheat must go on U.S. ships, but it stopped short of saying that cargo preference laws applied.

Most recently, the Department of Transportation tool the position that because the Jones Act applied to the shipment of oil from Alaska to the Strategic Petroleum Reserve (SPR), such shipments may not be counted towards the fifty percent U.S.-flag cargo preference share required of the importation of foreign oil for the SPR program.

The Department of Energy said Alaskan oil should count towards satisfying the fifty percent requirement.

The Department of Justice resolved the dispute in favor of the Department of Energy.

Under these circumstances, doesn't efficiency in government alone require legislation such as S. 206?

Answer. There are a number of factors which must be considered with regard to the effect S. 206 would have. First, it would represent an expansion of cargo preference, and the administration is opposed to any such expansion. Second, the legislation would deprive affected agencies of substantial discretion in the administration of the cargo preference laws. It could infringe on the management prerogative of individual Government agencies, and undermine the success of their programs. Additionally, it could increase budget costs and run counter to the Administration's goals of increased economic efficiency, market orientation, and less Government regulation.

It would necessitate an extensive manpower requirement in the Department of Transportation to carry out such a mandate, and increase costs for other government agencies. We are unable to support this.

Question. Some critics of bulk cargo preference maintain that it is by no means the prevailing practice in the commercial bulk trades.

Do you agree with this?

Answer. We agree with this, but it must be noted that there is an increasing trend for other countries to apply cargo preference to bulk cargo. The administration, however, is opposed to this trend.

Question. The President of the Shipbuilder's Council of America was recently quoted as follows:

A very major factor in vessel cost is caused by lack of standards for component design. Further, Navy Standards and Commercial Standards are, in general, not compatible and two areas of activity are required. In contrast, in Japan, shipbuilding operates under the industrial standardization law enacted in 1949.

A worthy MARAD project would be to focus upon the issues of standards and find a solution to a very costly problem.

(A) Has MARAD considered doing this?

Answer. In 1965, MARAD published the first edition of "Standard Specifications for Cargo Ship Construction." Its purpose was to standardize shipbuilding specifications. The document was revised in 1979 and is in active use now.

Material specifications were written by MARAD beginning in the early 1940's. Those documents provided the means for standardizing various materials and components used in ship construction; they covered such items as: paint, joiner work, insulation, ladders, etc. All of these documents are now obsolete because of the lack of resources to maintain them.

It should be noted that use of the above-mentioned standard ship specifications and material specifications was not mandatory, but provided to industry for their consideration.

In 1973, MARAD began a joint sponsorship with the industry of the National Shipbuilding Research Program. During a seminar in June 1976, members of this group met with various members of the marine industry to discuss the potential benefits of standardization. The conferees concluded that the development of shipbuilding standards was feasible and that a national program should be implemented. A SNAME Panel SP-6 on Standards and Specifications was tasked in November 1977 to serve as the industry's steering committee for the National Shipbuilding Standards Program. They selected the American Society for Testing and Material (ASTM) as the forum for developing their standards because of the ASTM consensus procedure. About 175 industry representatives met in June 1978 and formally created the ASTM Committee F-25 on Shipbuilding. To date a dozen standards have been approved and about 100 others are in various stages of development. MARAD personnel participated in all the events noted here. MARAD has been funding one corporate membership and ten individual membership positions in ASTM in order to provide for our participation in standards development. MARAD has offered all of its specifications to ASTM for conversion to commercial standards, and Navy has offered virtually all of its military specifications.

An American subsidiary of IHI Co. Ltd., a Japanese shipbuilder, has prepared for the partially MARAD-funded National Shipbuilding Research Program, a long-range standards program for the U.S. shipbuilding industry.

The purpose of all the work described is to reduce the cost of shipbuilding. In summary, MARAD considers the issue of standards to be a worthy project and is supporting the development of standards, however, the standards must come from the industry that uses them.

Question. Critics of S. 1624 maintain that the proposed guideline rates would be incredibly complex, would inject bureaucratic confusion; and, that MARAD encountered insurmountable problems in 1971 when it attempted to determine guideline rates for the carriage of government-impelled cargoes in order to guarantee "reasonable compensation to carriers." Is this criticism justified in your view?

Answer. Since the enactment of cargo preference legislation in 1954, the Maritime Administration has determined guideline rates for the carriage of bulk preference cargoes on U.S.-flag vessels. Our administrative procedures have been much simpler than those outlined in the proposed bill, allowing the expeditious determination of rates with a minimum of administrative effort. However, the scope of our determinations is fairly narrow, and the number of determinations small.

We agree that it would place an additional administrative burden on the Government to monitor the program, set the guideline rates, and administer the Advisory Committee on cost reduction. Such as expansion, requiring additional personnel and regulations, is clearly not in keeping with the Administration's policy to simplify and minimize Government involvement in the market. Also, the proposed formula would appear to result in windfall profits to older U.S.-flag vessels and would significantly increase the bureaucratic burden by virtue of its requirement for widespread consultation within the industry to determine the cost elements which would be incorporated in the guidelines rates.

Question. Aren't most bulkers under construction already committed to long-term charters? In fact, construction is undertaken on the basis of such preexisting commitment. No one would construct a bulker with the idea of looking for cargo of opportunity?

Answer. Many bulk vessels built in the United States were constructed in conjunction with long-term charters. However, many others have been built without long-term contracts. In the domestic trade, with 100 percent U.S.-flag preference, tankers have been built under the entire spectrum of employment prospects—under long-term charters, under short-term charters, and in anticipation of ample cargo in the spot market. For the industry as a whole, long-term charters are not a substitute for cargo. Rather, they are vehicles to either: 1) shift vessel financing and ownership from one party to another party; or, 2) shift certain market risks, such as the uncertainty of future cargo or availability of vessels, from one party to another party.

The existence and extent of long-term chartering activity reflects the needs of vessel users, operators and owners and their expectations about future market conditions. Long-term charters executed for financial reasons merely reflect the charterer's desire to acquire tonnage as a lessee rather than owner. Financing and tax considerations are the primary determinants. Long-term charters executed to shift market risks reflect: (1) the charterer's desire to secure tonnage at a fixed cost to meet anticipated, but not necessarily fixed, future needs; and, (2) the owner's desire to accept a fixed stream of revenue over the long-term without the risk or reward of future changes in market hire rates. The attractiveness of long-term contracts to the prospective charterer and owner will depend on their respective beliefs about both the future demand for shipping services and the future supply of vessels. In the long run the demand for shipping services, not just the availability of long-term charters, will determine the number of vessels built.

Question. If this is so, will S. 1624 change the way of doing business, so that people will build on the basis of cargo being available through preference, rather than preexisting commitments to long-term charters?

Answer. S. 1624 will not appreciably change the way of doing business. The need to ensure that the minimum U.S.-flag carriage is maintained will simply add another element in the decision on spot chartering versus long-term chartering.

Question. Under the law MARAD is authorized to advance funds to Title XI vessel operators to help service their Title XI debt during periods of economic depression.

On July 26, Senators Stevens, Long, and I wrote to MARAD expressing concern that OMB had made MARAD's exercise of this authority subject to its approval on a case-by-case basis. We requested an explanation of existing policy and procedures.

While your reply of August 16 was informative, it did not state whether approval of OMB is required on a case-by-case basis.

(A) Is this the situation?

(B) If it is, isn't this contrary to the law (46 U.S.C. 1117) which gives this authority to MARAD?

Answer. Decisions regarding advances are made by the Maritime Administrator on the basis of detailed analyses covering: (1) the health and history of the company, (2) its past requirements for assistance, (3) its current and projected cash flow, (4) its total debt, (5) its experience in meeting prior financial forecasts, (6) the current and projected utilization rate of its assets, (7) the state of the particular segment of the industry in which it must compete, and (8) a variety of other factors that bear upon the ability of the company to repay the advance.

Regarding OMB's participation in the advance process, last fall I requested an apportionment from OMB of $25 million which I expected, based on past experience, would be adequate to cover potential advance requirements for fiscal year 1983. OMB provided the $25 million. Unfortunately, market conditions in the maritime industry have not recovered as quickly as we had hoped and it became necessary for me to request additional apportionments which OMB provided on a case-by-case basis. The policies and procedures followed in considering requests for Title XI advances are consistent with the objectives of the Title XI program and with the meaning and intent of 46 U.S.C. 1117. For fiscal year 84, MARAD requested and received a $25 million apportionment for advances.

Question. Some commodity interests have urged cargo preference should only apply to U.S. imports. That way our exports would remain competitive in world markets.

If there were no cargo preference for exports, how would U.S. bulkers be assured of cargo on the outbound portion of a voyage?

Would you please comment.

Answer. Limiting commercial cargo preference to U.S. imports would not lessen the Administration's opposition to the principle of Government-mandated cargo allocation. Contrary to the assertion, the competitive position of our exports would be adversely affected. Cargo preference would raise the cost of imported goods and materials to U.S. consumers and producers. This, in turn, would reduce the U.S. economy's ability to produce goods for export at competitive prices. Since our major bulk import is crude oil, U.S. energy prices would be artificially raised. This would raise the cost of producing important export products such as raw agricultural commodities. In the long term, the higher price for oil would also increase domestic demand for substitutes, such as coal. The resulting higher domestic price for coal would make U.S. coal less attractive to foreign buyers.

Further, cargo preference on imports only would likely be viewed by our trading partners as an unfair barrier to trade. The administration is committed to removing barriers to trade in the international market place.

Your concern for a lack of assured cargo on the outbound portion of a voyage is unfounded. Typically, our bulk imports—primarily crude oil—are carried in vessels most suited for moving specific commodities over specific routes. Tankers, in particular, usually return in ballast to the oil sources. Neither the directional flow of bulk trade nor the suitability of vessels is conclusive outbound. Present tanker trading patterns result from the operation of a highly competitive market for bulk shipping services. The effect, if any, that cargo preference might have on artificially changing these patterns would only be counterproductive.

Question. About 98.9 percent of U.S. dry bulk exports and 96.7 percent of exports carried on tankers are carried in ships provided by buyers. Foreign carriage deprives U.S. economy of jobs in the ship operating and ship construction industries.

Adds to the balance of payments deficit; and deprives the Government of substantial tax revenues.

Do you know approximately how many jobs are lost; how much is added to our balance of payments deficit; and how much tax revenue our government loces?

Answer. Greater U.S.-flag carriage of our exports would mean more jobs in the maritime sector of our economy. The overall economy, though, might not benefit from greater U.S.-flag carriage induced by commercial cargo preference. The gains in the maritime tax revenues would have to be compared to the losses in tax revenues from other sectors of the economy which would be affected by commercial cargo preference. Likewise, the net impact on the balance of payments and U.S. total employment would depend on the impact of U.S.-flag carriage on our exports. Were the export market to be significantly reduced through higher prices vis-a-vis competitive sources of supply, the economy would suffer a net loss.

The administration seeks to improve the competitive position of U.S. operators and thus create maritime industry employment, increase Federal tax revenues, and reduce the balance of payments deficit. However, these goals should not be counterproductively accomplished at the expense of other sectors of the economy.

Question. Many experts have expressed skepticism that the Administration's proposal to permit build-foreign by ODS operators will result in any increased number of U.S.-flag ships in our foreign trades, or that it will result in increasing the percentage of our foreign commerce carried by U.S.-flags (now about 4 percent).

The reason for their skepticism stems from another Administration policy which gives ODS only for ships that are built to replace old ships already under ODS contract. In other words, there is no expansion of the ODS program.

Would you please comment.

Answer. The cited skepticism also apparently stems from the assumption that U.S.-flag vessels cannot be operated without operating-differential subsidy (ODS). The administration is commited to reducing the industry's dependence on direct subsidies, such as ODS. The Administration's promotional and regulatory reform proposals are intended to foster fleet maintenance and expansion with less reliance on subsidies.

It is not axiomatic that ODS must expand for the fleet to expand. This is evident from experience under the temporary Section 615 authority to acquire foreign-built vessels. Of the 36 new constructions approved, 14 will be the world's largest containerships and will be operated without ODS. Another 12 are bulk vessels, also to be operated without ODS. In addition, 3 of the 13 conversions approved were for major bulk reconstructions which will be operated without ODS. This brief experience reflects the industry's desire and potential to maintain and expand the U.S.-flag fleet, given a policy that fosters and encourages the industry's competitive, self-reliant spirit.

Question. UNCTAD Code provides a cargo reservation scheme of 40-40-20 for liner conferences. Even the Brussels package recognizes closed conferences and other anti-competitive devices—so there is no free trade. And the UNCTAD formula may eventually be extended to bulk trades so why should we not have restrictive practices—such as cargo reservation?

Answer. When the U.N. Liner Code is implemented, cargo reservation will not be practices in U.S. trades nor in trade between members of the Organization for Economic Cooperation and Development (OECD). Because the United States, with approximately 21.5 percent of world seaborne trade, is not a party to the Code, the provisions cannot be applied in our trade with any country—whether or not such country is otherwise bound by the Code. In addition, the European Economic Community (EEC) in accepting the Code, stipulated that conference trade between members, and also trade with OECD nations which are parties to the Code, would not come under the credit, cargo-sharing regime. Thus, free trade, as it now exists, will continue for most world liner movements.

The administration is opposed to governmentally imposed, non-market distribution of ocean transportation services, whether in the liner or bulk trades. The fact that Government-mandated cargo allocation for liner trade has been sanctioned by some nations does not alter this opposition.

Question. About 98.9 percent of U.S. dry bulk exports and 96.7 percent of exports carried by tankers move on foreign-flag vessels.

How much of that cargo is carried by Soviet-flag or other state-controlled carriers?

Answer. Only about 1 percent of total nonliner traffic and $\frac{2}{10}$ of 1 percent of tanker traffic was carried in USSR or other Eastern-bloc vessels. The Peoples' Republic of China accounts for another $\frac{9}{10}$ of 1 percent of nonliner traffic.

The following table indicates the share of U.S.-foreign trade tonnage carried by Soviet and other state-controlled carriers in calendar year 1982.

[In percent]

	Imports	Exports	Total
U.S.S.R.-flag:			
Liner	0.1	0.1	0.1
Nonliner	(1)	.2	.1
Tanker	.2	.4	.2
Total	.1	.2	.2
Eastern bloc-flags:			
Liner	1.0	.9	.9
Nonliner	.6	1.0	.9
Tanker	(1)	.0	(1)
Total	.2	.4	.5
People's Republic of China-flag:			
Liner	.4	.5	.5
Nonliner	.2	1.1	.9
Tanker	(1)	(1)	(1)
Total	.1	.9	.5

(1) Less than 0.05 percent.

Question. Our liner trades are subject to aggressive competition, sometimes too aggressive as witnessed by the illegal rebating which was rife a few years ago.

In your view, is the depleted state of our dry bulk fleet more attributable to aggressive foreign competition, or the lack of effective action by the United States to create and maintain a bulk fleet?

Answer. Both aggressive foreign competition and ineffective Government policies have lead to the decline of our bulk fleet.

Foreign-flag competitors enjoy substantial cost advantages, primarily in the form of lower vessel acquisition and wage costs. Foreign construction costs in Western European and Far Eastern shipyards are dramatically lower than in U.S. yards, for a number of reasons, which result in higher productivity. Also, in some cases these yards are being subsidized by their governments and are actually quoting prices below cost to attract new orders. Subsidy programs have been ineffective in offsetting the cost advantages of foreign competitors.

The Administration's goal is to foster a U.S.-flag bulk fleet through competitiveness rather than Government subsidies. Toward that end, proposals have been made to: (1) allow foreign acquisition of vessels; (2) permit reflagging of modern foreign-built bulkers with immediate access to preference cargoes; and (3) repeal of the 50 percent ad valorem tax on non-emergency repairs done in foreign shipyards. These proposals represent cost effective ways of fostering and maintaining a U.S.-flag bulk fleet.

Question. DOT has ruled that the blended credit program is subject to the Cargo Preference Laws, but that the preference requirement would not be applied.

Does the law (Sec. 901 of the Merchant Marine Act) give you this discretion?

Answer. Sec. 901(b)(1) of the Merchant Marine Act, 1936, as amended, (The Cargo Preference Act, 1954) requires agencies to take such steps "as may be necessary and practicable" to obtain the specified U.S.-flag carriage. Thus, it is not our intention to interpret the requirements of the cargo preference laws so literally that "acceptance of that meaning would lead to absurb results . . . or would thwart the obvious purpose of the statute." *Helvering* v. *Hammel,* 311 U.S. 504, 510–511 (1941). It is appropriate to consider the underlying objectives of the cargo preference laws and the results that would obtain from their application in determining whether to restrict the imposition of their requirements in certain circumstances. See Sutherland, Statutory Construction, § 45.09, 45.12 and 54.06 (4th ed. 1973). Thus, in the case of the Blended Credit Program as presently formulated, we did not seek to enforce the cargo preference laws where their application would negate the benefits of the underlying program and thereby do nothing to further the objective of greater U.S.-flag carriage.

We have reserved the question of whether the cargo preference laws would be enforced in connection with USDA's blended credit program should the program be reformulated to change the benefits derived from the program.

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